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CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

THE CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

IN THE MATTER OF: ALLEGATIONS OF PROFESSIONAL MISCONDUCT AGAINST **FREDERICK L.T. WATKIN**, **CPA, CA**, BEFORE THE DISCIPLINE COMMITTEE

SETTLEMENT AGREEMENT

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

Introduction

1. The Professional Conduct Committee (PCC) approved draft allegations of professional misconduct against Frederick L.T. Watkin, CPA, CA (Watkin) in or about April 2023 (Allegations), the particulars of which are set out below. The documents referred to in this Settlement Agreement (Agreement) are found in the Document Brief (**Doc**). The applicable CPA Handbook sections are found in the Standards Brief (**Tab**).

2. The Allegations (**Doc 1**) pertain to circumstances arising from Watkin's public accounting services on behalf of four clients, specifically:

    a. Audit of the financial statements of "FMIC" for the year ended December 31, 2020; (**Doc 2**)

    b. Audit of the financial statements of "GBNF" for the year ended March 31, 2021; (**Doc 3**)

c. Audit of the financial statements of “LMIC” for the year ended December 31, 2021; (**Doc 4**) and

d. Review of the financial statements of “LPTC” for the year ended October 31, 2022. (**Doc 5**)

in which he failed to perform his professional services in accordance with generally accepted standards of practice of the profession contrary to R. 206.1 of the CPA Code of Professional Conduct (Code).

3. The PCC and Watkin agree with the facts and conclusions set out in this Agreement for the purpose of this proceeding only, and further agree that this Agreement of facts and conclusions is without prejudice to Watkin or the PCC in any other proceedings of any kind, including, but without limiting the generality of the foregoing, any civil or other proceedings which may be brought by any other person, corporation, regulatory body or agency.

Background

4. Watkin has been a Chartered Professional Accountant and member of CPA Ontario since 2005.

5. Watkin has held a Public Accounting License since 2007.

6. Around 2008, he started his own CPA practice, which evolved into the firm Pinnacle CPAs Professional Corporation (Pinnacle), through which he completed the engagements relevant to these Allegations. Over the years, to expand his practice, Watkin bought the practices of retiring CPAs.

7. Pinnacle was sold in November 2023, and an application was submitted to CPA Ontario for formal deregistration and cancellation of the Certificate of Authorization (COA). Watkin is no longer working in public accounting.

8. Until late 2023, the nature of his practice focused on audits, reviews, and compilations for private enterprises, along with corporate and personal tax services. Prior to being sold, the

assurance practice most recently composed of 30 to 40 audit clients, one review engagement client and 50 compilation clients. It also included the preparation of about 400 tax returns.

9. Pinnacle was previously a training office, employing a CPA manager and a CPA Student. The CPA manager left in May 2022 to pursue a career in industry. The CPA student left in August 2022 for an investment firm. Pinnacle was not acting as a training office at the time of its sale.

10. Watkin most recently had two employees: a bookkeeper and an administrative assistant; prior to selling Pinnacle, Watkin performed all audit and review engagements on his own.

11. Watkin recognizes that the FMIC and GBNF audits were not appropriately performed in accordance with Canadian Auditing Standards.

12. Watkin acknowledges and agrees that he lacked certain technical knowledge and extensive practical experience on complex matters. His level of familiarity with more complex audit procedures and understanding of documentation requirements should have been subject to improvement.

13. On or about January 25, 2024, Watkin's request to discontinue his Public Accounting Licence was accepted by CPA Ontario.

Complaint

14. On April 7, 2022, based on the results of a CPA Ontario practice inspection of Pinnacle, the Practice Inspection Committee determined that Watkin's failure to meet professional standards was sufficiently serious to refer his conduct to the PCC.

15. On November 3, 2022, the PCC appointed Audrey Mercier, CPA auditor, CFE, CFF, CBV to investigate Watkin's professional conduct, standards of practice and the circumstances

surrounding the complaint.

16. As part of her investigation, Ms. Mercier reviewed Watkin's conduct and standards of practice in relation to three audits and a review engagement; she released her report on February 22, 2023.

Generally Accepted Auditing Standards (GAAS) in 2020 to 2022

17. The standards applicable to the audits at issue are described by GAAS and were published in the Assurance section of the CPA Canada Handbook (CAS).

18. 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.

19. 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 Engagement Quality Control Reviews.

20. 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. (New A31) 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 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. (New A32) 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. (New A33) 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.

21. Further, 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.

22. Pursuant to CAS 200.18-23, compliance with CAS is mandatory. (**Tab 1**)

23. GAAS also includes International Financial Reporting Standards (IFRS) which are mandatory for publicly owned companies, IFRS requirements are identified as International Auditing Standards (IAS); and Accounting Standards for Private Enterprises (ASPE) which are

accounting standards for small and medium sized enterprises in Canada that publish financial statements for general-purpose use.

Generally Accepted Standards for Review Engagements in 2020 to 2022

24. The standards applicable to reviews are described by generally accepted standards for review engagements. During 2020-2022, these standards were published in the Assurance section of the CPA Canada Handbook.

25. The generally accepted standards for review engagements require practitioners to obtain limited assurance by performing inquiry and analytical procedures to determine whether an entity's reviewed financial statements as a whole are free from material misstatement. The practitioner may then express a conclusion on whether anything has come to his/her attention that causes him/her to believe that the financial statements are not prepared in all material respects in accordance with an applicable financial reporting framework.

26. To obtain reasonable assurance, the Canadian Standard on Review Engagements CSRE 2400 – Engagements to review historical financial statements set out the standard to be met, requirements to be fulfilled and steps to be taken. They include performing primarily inquiry and analytical procedures, obtaining sufficient appropriate evidence while exercising professional skepticism, as well as adhering to the Canadian Standard on Quality Control (CSQC 1) – Quality Control for Firms that Perform Audits and Reviews of Financial Statements and other Assurance Engagements; CSQC 1 standard was replaced by Canadian Standards on Quality Management (CSQM 1), on December 15, 2022.

27. Further, the generally accepted standard for review engagements requires practitioners to plan and perform the review engagement with 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 the practitioner to conduct a critical assessment of the evidence. (**Tab 2**)

28. Pursuant to CSRE 2400.7 to CSRE 2400.10, compliance with CSRE is mandatory. (**Tab 2**)

Failure to Maintain Professional Standards

29. Watkin admits that he failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code in the:

    a. Audit of the financial statements of "FMIC" for the year ended December 31, 2020; (**Doc 2**)

    b. Audit of the financial statements of "GBNF" for the year ended March 31, 2021; (**Doc 3**)

    c. Audit of the financial statements of "LMIC" for the year ended December 31, 2021; (**Doc 4**) and

    d. Review of the financial statements of "LPTC" for the year ended October 31, 2022. (**Doc 5**)

30. Watkin admits that the Allegations, as described below, accurately particularize his failure to perform his professional services in accordance with generally accepted standards of practice of the profession and to conduct his practice in compliance with the Code.

Allegations

FMIC

31. FMIC is a private mortgage lender, requiring its financial statements to be prepared in accordance with the IFRS framework. FMIC's investors and borrowers rely on the financial statements for their respective decision making; this was a high-risk audit engagement.

Allegation 1 – Frederick Watkin, in or about the period December 1, 2020 to April 31, 2021, while engaged to perform the audit the financial statements of FMIC, for the year ended December 31, 2020 failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code, in that:

   a. **He failed to document the method used to determine materiality**; (38)

32. CAS 320 requires the auditor, when planning the audit and developing their overall audit strategy, to determine materiality for the financial statements as a whole. (**Tab 3**)

33. Watkin set materiality at $50,000, the method he used to determine materiality was not fully documented in the working paper file.

b. **He failed to adequately identify and assess the risk of material misstatement due to fraud**;

34. CAS 240.26 requires the auditor to identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures. (**Tab 4**)

35. CAS 315.25-26 requires the auditor to obtain an understanding of the entity's information system and communication relevant to the preparation of the financial statements, and its control activities component, through performing specifically listed risk assessment procedures. (**Tab 5**)

36. Watkin completed a fraud risk assessment at the financial statement level, but he failed to identify and assess the risk of material misstatement, including the risk of material misstatement due to fraud, at the assertion level for classes of transactions, account balances, and disclosures to provide a basis for designing and performing further audit procedures.

37. As a consequence, Watkin did not adjust the nature, timing and extent of further audit procedures in order to reduce the audit risk to an acceptable level.

38. Without properly assessing fraud risk correctly at the assertion level, it is difficult for the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

c. **He failed to document a subsequent event review**;

39. CAS 560 requires the auditor to perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in,

the financial statements have been identified. (**Tab 6**)

40. The only reference in the FMIC audit file to subsequent events is a singular statement of "no subsequent events", without any documentation of the subsequent events review in support of this conclusion.

   d. **He failed to document any audit procedures with respect to accounts receivable and failed to perform substantive audit procedures on the existence and valuation of accounts receivable**;

41. CAS 330.5 and .18 require the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level and to design and perform substantive procedures for each material class of transactions, account balance, and disclosure. (**Tab 7**)

42. CAS 500 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (**Tab 8**)

43. Accounts receivable amounted to $143,297. Watkin failed to document any procedures with respect to accounts receivable. In the audit file, Watkin linked a copy of the lead sheet and accounts receivable listing. These documents included no reference to audit procedures or audit evidence.

44. Watkin failed to perform substantive audit procedures on the existence and valuation of accounts receivable as required.

   e. **He failed to perform audit procedures relating to the valuation assertion of the mortgage loans receivable amounting to $15,420,585**;

45. CAS 330.5 and .18 require the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level and to design and perform substantive procedures for each material class of transactions, account balance,

and disclosure. (**Tab 7**)

46. CAS 500 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (**Tab 8**)

47. Mortgages receivable amounted to $15,420,585 (current portion: $14,482,248; long-term portion: $938,337). A provision for doubtful mortgages of $395,521, representing 2.5% of the balance, was recognized, but the actual default rate amounted to approximately 0.25%.

48. Watkin failed to perform any work with respect to the valuation assertion of the mortgage loans receivable. While Watkin verified that fair market value (FMV) of properties held as security were in excess of loan values, it was not fully documented how this supported the valuation assertion.

49. It is necessary to ensure the mortgages are collectible and there is sufficient collateral in the mortgages. Investors in funds expect the auditors to verify this element.

50. In order to support the value of the mortgages, auditors generally review compliance with payments terms and obtain copies of appraisals. While it is Watkin's position that he performed verification procedures with respect to the funding documents which included appraisals and terms, he acknowledges that he did not adequately document these procedures.

   f. **He failed to obtain sufficient and appropriate audit evidence to support the existence and completeness of a $395,582 due to related party amount**;

51. CAS 505.5 and .10 requires the auditor, when using external confirmation procedures, to design and perform such procedures to obtain relevant and reliable audit evidence, and if the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request, the auditor is required to obtain further audit evidence to resolve those doubts. (**Tab 9**)

52. The Statement of Financial Position reports a due to related party balance of $395,582, classified as long-term. This balance was composed of amounts due to and amounts receivable from two companies under common ownership, BM and CII.

53. Watkin obtained confirmations of the amounts owed. However, the confirmations were not in the traditional letter format, instead they were printouts of the lead sheets which were signed by the related party. There was no documentation to confirm who the signatory of the confirmations was and why this person was an authorized signatory for the related party, undermining the validity and reliability of the confirmations. Insufficient and inappropriate audit evidence was obtained to support the existence and completeness of the balances.

g. **He failed to appropriately record an amount receivable from a related party by incorrectly offsetting the balance against a payable balance**;

54. ASPE 3856.24 directs that a financial asset and a financial liability are to be offset and the net amount reported in the balance sheet, only when an enterprise currently has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. (**Tab 10**)

55. Included in the balances was an amount receivable from BM of $71,107, off set against a payable balance of $466,689 to CII. When the asset and liability are not with the same party, there is no legally enforceable right to offset the balances.

56. Watkin inappropriately netted the amount receivable of $71,107 from BM against the amount payable of $466,689 to CII. As a result, liabilities were understated by approximately $71,000.

h. **He failed to obtain audit evidence to support the long-term classification of a due to related party amount of $395,582**;

57. ASPE 3856.43. requires the auditor to ensure that the financial statements disclose the terms and conditions of the balances receivable and payable to related parties. (**Tab 10**)

58. The due to related party of $395,582 was classified as long-term. Watkin failed to obtain audit evidence to support the long-term classification of this balance. Further, Watkin did not validate the terms and conditions of the due to related party to the agreement or, alternatively, did not confirm the terms and conditions through the confirmation process.

59. Consequently, insufficient and inappropriate audit evidence was obtained to support this classification.

i. **He failed to realize that the non-voting redeemable preferred shares amounting to $17,254,702 included a retraction feature and therefore failed to consider whether the preferred shares should be classified as debt or equity**;

60. The Conceptual Framework for financial reporting of IFRS, S. 4 classifies retractable preferred shares as liabilities rather than equity given that the redeemable feature creates a potential obligation to pay cash that an entity has no practical ability to avoid.

61. Non-voting redeemable preferred shares amounting to $17,254, 702 are included in FMIC's share capital.

62. The descriptions contained in the Articles of Amalgamation in the FMIC file indicate that Series A-M shares are all retractable at the option of the holder.

63. Watkin did not realize that these shares included a retraction feature, and therefore failed to consider whether the preferred shares should have been classified as debtor liabilities because of their retraction feature.

64. Instead, Watkin classified the preferred shares as equity because there was neither a fixed rate of dividend on the shares nor fixed maturity dates on the issued shares.

65. The FMIC working paper file does not contain sufficient information for a successor auditor to conclude with certainty as to whether the preferred shares should have been considered a liability. This absence of information is of particular concern considering the entity's business operations, the likelihood of material error in the financial statements and the potential impact on the decision making of the financial statement users.

j. He failed to obtain and document an understanding of the accounting procedures and the internal controls present with respect to payroll and failed to design and perform appropriate audit procedures with respect to payroll; and

66. CAS 315.20 requires the auditor to evaluate whether the entity's accounting policies are appropriate and consistent with the applicable financial reporting framework. (**Tab 5**)

67. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (**Tab 8**)

68. FMIC salaries and benefits amounted to $136,518. Watkin failed to obtain an understanding of the accounting procedures and the internal controls present with respect to payroll, his working paper section "Control design/implementation – Payroll" was documented as "worksheet not included in the current file."

69. To test the payroll expenses, Watkin relied solely on the T4s as audit evidence to support the salaries. T4s are considered to be internal evidence as they are prepared by the client from the accounting software. As such, insufficient external audit evidence was obtained to verify the existence and accuracy of the payroll expense. Watkin should have performed some tests of detail on a sampling basis to verify the existence of the employees, the accuracy of salary and the accuracy of taxes and deductions.

70. Watkin failed to design and perform audit procedures that were appropriate in the circumstances to obtain sufficient and appropriate audit evidence.

k. **He failed to design and perform appropriate audit procedures to validate the existence, accuracy and completeness of expenses paid to related parties**.

71. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (**Tab 8**)

72. The reported expenses included financial advisory service fees of $528,796, representing payments made under an administrative agreement with CII a related party. These expenses included $120,000 of management fees, billed at $10,000 per month for "administration and management services", paid to another related party, BM.

73. Aside from documenting these transactions Watkin failed to perform any substantive audit procedures to validate the existence, accuracy and completeness of these expenses.

GBNF

74. GBNF is an indigenous community provider that administers various programs to its members within a specific geographic region of Ontario. Materiality was determined at $50,000.

Allegation 2: Frederick Watkin, in or about the period March 1, 2021 to June 30, 2021, while engaged to perform an audit of the financial statements of GBNF for the year ended March 31, 2021, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code, in that:

a. **He failed to disclose the economic dependence by GBNF on another party;**

75. ASPE 3841.02 directs that when the ongoing operations of an entity depend on a significant volume of business with another party, the economic dependence on that party shall be disclosed and explained. (**Tab 11**)

76. More than 80% of GBNF's revenues come from donations from the OFIFC.

77. Although Watkin noted the economic dependence at the planning stage of the audit, when completing the audit, he failed to disclose this economic dependence in the financial statements of GBNF.

   b. He failed to accurately present restricted net assets in respect of a facility improvement fund in the statement of financial position;

78. ASPE, Part III, S. 4400.19 requires not-for-profit organizations to disclose separately any other restricted assets in their statement of financial position. (**Tab 12**)

79. GBNF maintains a facility improvement fund of $76,198. This fund is internally restricted and is to be used to carry out needed improvements to the Centre's building and equipment. The statement of financial position of GBNF did not present other restricted net assets with respect to this facility improvement fund although a liability was set up for this amount.

   c. He failed to document his understanding of the information systems related to fundraising activities and failed to perform and document any audit procedures to verify the existence, completeness or cut off of fundraising activities;

80. CAS 315.18 and .32 requires the auditor to obtain an understanding of the information system, including the related business processes, relevant to financial reporting and document this understanding. (**Tab 5**)

81. The Schedule of Revenues and Expenditures – General Account reports 2021 revenue for Fundraising of $72,814.

82. Watkin failed to document his understanding of the information systems around fundraising activities. Documentation should have addressed the procedures, within both information technology and manual systems, by which transactions are initiated, recorded, processed, and reported, and the related accounting records supporting information and specific accounts in the financial statements.

83. Watkin failed to perform and document any audit procedures to verify the existence, completeness or accuracy of fundraising activities.

d. He failed to document his rationale for not qualifying the audit opinion with respect to the completeness of fundraising and donation revenue;

84. CAS 230.10 requires the auditor to document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place. (**Tab 13**)

85. When the auditor identifies information that is inconsistent with their final conclusion regarding a significant matter, CAS 230.11 requires the auditor to document how they addressed the inconsistency. (**Tab 13**)

86. Where not-for-profit organizations receive cash donations, it is very difficult to ascertain the completeness of donations. As such, the audit opinion is generally qualified with respect to the completeness of the donations.

87. Watkin failed to consider the ability to obtain assurance over the completeness of cash donations. The detail of the revenue account provided in the financial statements is showing fundraising and donations revenues totaling $87,099 in aggregate. Watkin did not comment on the nature of these donations and did not consider whether he was able to obtain sufficient audit evidence to form an opinion over the completeness of the fundraising and donation revenues.

88. Watkin failed to document his rationale for not qualifying the audit opinion with respect to the completeness of fundraising and donation revenue.

e. He failed to perform audit procedures with respect to deferred revenue;

89. CAS 330 requires the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate

responses to those risks. (**Tab 7**)

90. CAS 330.18 requires the auditor to design and perform substantive procedures for each material class of transactions, account balance, and disclosure irrespective of the assessed risks of material misstatement. (**Tab 7**)

91. The GBNF financial statements included deferred revenue amounting to $119,951. Watkin failed to audit deferred revenue even though the amount was material. Although this balance was addressed at the planning stage, Watkin failed to document the audit procedures performed with respect to deferred revenues. At a minimum, it was necessary to validate the completeness and accuracy of this balance.

f. He failed to perform audit procedures with respect to deferred contributions related to capital assets and failed to document the justification for the long-term presentation of these deferred contributions;

92. CAS 330.18 requires the auditor to design and perform substantive procedures for each material class of transactions, account balance, and disclosure irrespective of the assessed risks of material misstatement. (**Tab 7**)

93. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (**Tab 8**)

94. The GBNF Statement of Financial Position on Liabilities included deferred contributions related to capital assets of $611,691 (Note 11). Watkin failed to audit deferred contributions related to capital assets even though the amount was material. The working paper file only included a schedule of deferred contributions dated March 31, 2020. Watkin also failed to justify the long-term presentation of these deferred contributions in his working paper file.

g. He failed to assess and document whether supplementary schedules of revenues and expenditures were integral to the financial statements and did not explain in the

Auditor's report that this supplementary information had not been audited;

95. CAS 700 addresses the auditor's responsibility to form an opinion on the financial statements and the required form and content of the auditor's report to be issued. (**Tab 14**)

96. CAS 700.53 directs that when supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether, in the auditor's professional judgment, supplementary information is nevertheless an integral part of the financial statements due to its nature or how it is presented. When it is an integral part of the financial statements, the supplementary information shall be covered by the auditor's opinion. (**Tab 14**)

97. Alternatively, if supplementary information that is not required by the applicable financial reporting framework is not considered an integral part of the audited financial statements, CAS 700.54 indicates that the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. If this is not the case, then the auditor is required to ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor is required to identify the unaudited supplementary information and explain in their report that such supplementary information has not been audited. (**Tab 14**)

98. The GBNF financial statements include supplementary schedules of revenues and expenditures showing results by program and additional budget information. Watkin did not audit this supplementary information.

99. For GBNF, the supplementary information was presented with the audited financial statements and not clearly differentiated from those statements although it was not required by the applicable financial reporting framework and was not audited. Watkin did not assess and document whether the supplementary information was integral to the financial statements. Watkin did not explain in the Auditor's report that this supplementary information had not been audited.

h. **He failed to include an Other Matter paragraph in his Auditor’s report to advise the reader that there was a change in auditor;**

100. CAS 710.13 requires the auditor to state three key details in an Other Matter paragraph in their report if the financial statements of the prior period were audited by a predecessor auditor and the auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and decides to do so. (**Tab 15**)

101. The March 31, 2021, engagement was the initial engagement that Watkin performed for GBNF. Watkin purchased this client from a retiring CPA, John Nixon. As such, Watkin was given full access to the prior year working paper file and had the opportunity to discuss the prior years’ engagements with Mr. Nixon.

102. Watkin did not include an Other Matter paragraph in his Auditor’s report to advise the reader that there was change in auditor. Watkin explained that he did not think this requirement applied in the context of the purchase of a practice from a retiring CPA, he is incorrect.

i. **He failed to obtain sufficient and appropriate audit evidence to support the statement of financial position item “marketable securities $1,114,297”;**

103. CAS 500 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (**Tab 8**)

104. The Statement of Financial Position Current Assets lists Marketable Securities (Note 5) of $1,114,297, up from $646,437 (2020). Watkin did not obtain a bank confirmation to support the marketable securities, instead he relied solely on the broker statement obtained from the client.

j. **He failed to obtain sufficient and appropriate audit evidence to support the statement of financial position item "net bank overdraft $53,800";**

105. CAS 500 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (**Tab 8**)

106. The Statement of Financial Position Current Liabilities Net Bank Overdraft (Note 4) of $53,800 up from $12, 272 (2020). Watkin did not obtain a bank confirmation to support the net bank overdraft, instead he relied solely on the bank statement obtained from the client.

k. **He failed to perform and document the preliminary analytical procedures and the final analytical procedures;**

107. CAS 230.8 requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: all the audit procedures performed to comply with CAS, the results of the audit procedures including the evidence obtained, and significant matters that arose during the audit and the conclusions reached thereon. (**Tab 13**)

108. CAS 520.6 and .6 require the auditor to design and perform substantive analytical procedures during the audit and again near the end of the audit to assist in forming an overall conclusion as to whether the financial statements are consistent with their understanding of the entity. (**Tab 16**)

109. Watkin failed to perform and document the preliminary analytical procedures and the final analytical procedures.

l. **He failed to consider the impact of a potential fraud risk to manipulate expenses when completing his risk assessment at the assertion level; and**

110. CAS 240.13 requires the auditor to maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance. (**Tab 4**)

111. CAS 240.26 requires the auditor to identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures. (**Tab 4**)

112. During the team planning discussion, fraud was appropriately discussed, and Watkin identified a potential risk to manipulate expenses to eliminate potential claw backs on funding. They documented that OFIFC uses the financial statements to ensure that GBNF is compliant with funding agreements for programs. However, Watkin failed to follow through on this risk when completing his risk assessment at the assertion level. Watkin did not identify any high-risk accounts, class of transactions in performing this audit.

m. He failed to obtain sufficient and appropriate audit evidence to verify the existence and accuracy of the payroll expense.

113. CAS 402.11 requires the auditor to determine whether a sufficient understanding of the nature and significance of the services provided by the service organization and their effect on the user entity's system of internal control has been obtained to provide an appropriate basis for the identification and assessment of the risks of material misstatement. (**Tab 17**)

114. When considering what information should be used as audit evidence CAS 500.7 requires the auditor to consider the relevance and reliability of the information to be used, including information obtained from an external information source. (**Tab 8**)

115. GBNF's payroll is processed by Payweb.ca, a service organization. Watkin failed to obtain an audited report on the controls in place at the payroll provider (such as a SOC report type 2) to ensure that the controls of the payroll provider are satisfactory and can be relied

upon, or to perform alternative procedures to obtain sufficient appropriate audit evidence concerning the service organization.

116. To test the payroll expenses, Watkin performed a reconciliation of T4s with the expenses recorded in the financial statements. T4s are internal evidence as they are prepared by the client. As such, insufficient external audit evidence was obtained to verify the existence and accuracy of the payroll expense. Watkin should have sample tested to verify the existence of the hours worked (for example: obtaining approved timesheets), to verify the accuracy of salary rate (for example: trace to employee file), and to verify accuracy of taxes and deductions.

LMIC

117. LMIC is a private mortgage lender. Materiality was set at $55,000 based on 1.5% of Revenues. Being an investment mortgage company, LMIC is subject to specific regulations. Investors in the mortgages and potential borrowers rely on the financial statements for their decision-making, therefore this was a high-risk audit engagement.

Allegation 3: Frederick Watkin, in or about the period December 1, 2021 to February 28, 2022, while engaged to perform an audit of the financial statements of "LMIC" for the year ended December 31, 2021, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the CPA Code of Professional Conduct, in that:

a. **He failed to consider whether LMIC was required to prepare its financial statements in accordance with IFRS Standards;**

118. The CPA Handbook directs that investment mortgage brokers are generally considered a publicly accountable enterprise given that they hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. Publicly accountable enterprises are required to apply IFRS Standards.

119. LMIC prepared its financial statements in accordance with ASPE.

120. CAS 250.13-.14 requires the auditor to obtain an understanding of the entity and its environment with a general understanding of the legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates and how the entity is complying with that framework. (**Tab 18**)

121. LMIC's regulatory compliance manual mandates the use of the IFRS framework.

122. Watkin did not appropriately recognize the potential requirement to prepare IFRS financial statements.

123. Given the nature of the operations of LMIC, it was necessary to validate whether LMIC was a publicly accountable enterprise and whether it had regulatory requirements to respect with the Ontario Securities Commission or any other regulatory organizations and obtain sufficient appropriate audit evidence to support his understanding

b. He failed to perform audit procedures on the valuation assertion of accounts receivable;

124. CAS 330.18 requires the auditor to design and perform substantive procedures for each material class of transactions, account balance, and disclosure irrespective of the assessed risks of material misstatement. (**Tab 7**)

125. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (**Tab 8**)

126. Accounts receivable of $3,424,899 was composed of unpaid charges on mortgages, including late fees & defaulted mortgages in collections and accrued interest receivable. Watkin performed substantive audit procedures to test the existence of the accounts receivable and obtained coverage of 99% of the balance - however, Watkin did not document

any procedures with respect to the valuation of the accounts receivable.

127. Valuation is critical because even if the balance exists, there is no guarantee that it is collectible.

c. He failed to document differences in excess of materiality identified in developing an expectation in relation to the valuation of the mortgages receivable; and

128. CAS 330.18 requires the auditor to design and perform substantive procedures for each material class of transactions, account balance, and disclosure irrespective of the assessed risks of material misstatement. (**Tab 7**)

129. CAS 500.6 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (**Tab 8**)

130. Mortgages receivable are stated as $35,824,805 (current portion – $33,421,052; long-term portion – $2,403,753), while a provision for doubtful mortgages of $560,000 was recognized. There is no file documentation supporting a review of the collateral.

131. In analyzing the valuation of the mortgages receivable Watkin identified a difference of $305,098 between expected and at-risk collectibles in excess of materiality. Differences in excess of materiality should be corrected in the financial statements.

d. He failed to realize that the non-voting redeemable preferred shares amounting to $40,314,986 included a retraction feature and therefore failed to consider whether the preferred shares should be classified as debt or equity.

132. ASPE 3856.20 requires the issuer of a financial instrument to classify the instrument, or its component parts, as a liability or as equity in accordance with the substance of the contractual arrangement on initial recognition and the accepted definitions of financial liability and equity instrument. (**Tab 10**)

133. APSE 3856.A23 distinguishes a financial liability from an equity instrument by the existence of an obligation on the issuer to deliver either cash or an equivalent asset to the holder, at the direction of the holder. When such an obligation exists it is a financial liability – this is generally the outcome with shares that carry retraction features. (**Tab 10**)

134. Watkin included a copy of Section 3856 in the LMIC audit file, in the absence of any other documentation, to support his classification of the preferred shares as equity. Watkin did not realize that the shares included a retraction feature and thus failed to consider and document whether the preferred shares should have been classified as debt or equity.

LPTC

135. LPTC is a private sports club. This review engagement set materiality at $1,500 based on two percent of Gross Revenues. The financial statements would be used by the membership, potential members and lenders.

Allegation 4: Frederick Watkin, in or about the period October 1, 2022 to December 31, 2022, while engaged to perform a review of the financial statements of "LPTC" for the year ended October 31, 2022, failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the CPA Code, in that:

a. **He failed to ensure that the auditor's report was dated subsequent to the date on which he obtained sufficient appropriate evidence as to the basis for his conclusions on the financial statements;**

136. CSRE 2400.103 requires the practitioner to date their review report no earlier than the date on which they obtained sufficient appropriate evidence as the basis for their conclusion on the financial statements. (**Tab 2**)

137. Watkin's signoffs in the working paper file for fieldwork and completion of the LPTC review file were dated December 8, 2022, three days after he issued his independent practitioner's review engagement report on December 5, 2022.

138. Prior to the issuance of the review on December 5, 2022, Watkin only signed off on acceptance, risk assessment and planning elements of the engagement.

139. The vast majority of the review file was signed off as reviewed after the issuance of the review engagement report, raising reasonable doubt as to whether Watkin performed all necessary review procedures and obtained sufficient appropriate evidence prior to the issuance of the report.

b. He failed to obtain sufficient audit evidence regarding the valuation assertion of accounts receivable;

140. ASPE 3856.11 requires that accounts receivable be subsequently measured using the cost method less any reduction for impairment. (**Tab 10**)

141. Accounts receivable is a significant asset on the balance sheet, with a carrying amount of $8,976 in 2022. The Accounts Receivable Aging Summary identifies $2,632, which is above materiality, as overdue by 91 days and over.

142. Watkin neither performed any procedures to mitigate the risk on the valuation of accounts receivable nor performed an analytical review of this item. Additionally, Watkin failed to comment on management's assessment of allowance for doubtful accounts.

c. He failed to disclose a credit risk in regard to the accounts receivable; and

143. ASPE 3856.53 requires the enterprise to disclose the exposures to risk relating to financial instruments and how they arise, and any changes in risk exposures from the previous period. (**Tab 10**)

144. The Statement of Financial Position lists Current Asset - Accounts receivable as 8,976, a material balance. Watkin failed to disclose a credit risk regarding this value.

d. **He failed to perform adequate analytical procedures on the statement of operations**.

145. CSRE 2400 requires the practitioner to design and perform analytical procedures to address material items in the financial statements, including disclosures, as well as any areas where misstatement are likely to arise. (**Tab 2**)

146. The practitioner should apply analytical procedures to evaluate the financial information underlying the financial statements through analysis of plausible relationships in financial and non-financial data and assess the results for consistency with expected values in order to identify relationships and individual items that appear unusual, or that vary from expected trends or values.

147. Watkin failed to adequately document the results of the majority of the analytical procedures performed on the statement of operations.

Acknowledgement

148. Watkin admits that while engaged to provide public accounting services in the:

a. Audit of the financial statements of “FMIC” for the year ended December 31, 2020;

b. Audit of the financial statements of “GBNF” for the year ended March 31, 2021;

c. Audit of the financial statements of “LMIC” for the year ended December 31, 2021; and

d. Review of the financial statements of “LPTC” for the year ended October 31, 2022.

- he failed to perform his professional services in accordance with generally accepted standards of practice for the profession, including the recommendations set out in the CPA Canada Handbook, in the manner described above, contrary to Rule 206.1 of the Code.

Mitigating Factors

149. Watkin has no prior discipline record with CPA Ontario.

150. In arriving at this Agreement, Watkin saved the PCC and the Discipline Committee the time and expense of a lengthy hearing.

151. The misconduct detailed above did not result in any demonstrable financial or other harm to the stakeholders or the general public.

152. Watkin states that much of the misconduct occurred during periods of personal hardship for Watkin which, while not excusing lapses in his professional standards, may have contributed to those lapses.

Terms of Settlement

153. Watkin and the PCC agree to the following Terms of Settlement :

a. Watkin shall pay a fine of $7,500 to CPA Ontario;

b. Watkin's practice shall be restricted, prohibiting him from performing any assurance engagements;

c. Watkin has surrendered his Public Accounting Licence and irrevocably agrees and undertakes not to re-apply for a Public Accounting Licence in the future; Notice of the terms of this Agreement is to be published in the manner set out in CPA Ontario Regulation 6-2 sections 45, 48, 50 and 52 with notice to be given to all members of CPA Ontario, the Public Accounting Standards Committee, and all provincial CPA bodies and shall be made available to the public;

d. Notice of Watkin's restriction from assurance practice shall be published in the Toronto Star newspaper circulated in the Greater Toronto Area , with all costs of such publication borne by Watkin and paid within 30 days of invoicing;

e. Watkin shall pay costs in the amount of $23,000.00 to CPA Ontario;

f. Watkin, with the exception of paragraph d above, shall be permitted nine months from the time the Discipline Committee accepts this Agreement to pay the fine and costs referred to herein; and

g. A failure by Watkin to comply with any of these Terms of Settlement will result in the immediate suspension of his CPA Ontario membership until he complies, if his suspension under this section exceeds 30 days his membership in CPA Ontario will be revoked forthwith, without further notice to him.

154. The PCC and Watkin expressly consent to and authorize the Registrar to take any actions associated with Watkin 's membership in CPA Ontario as prescribed and agreed to herein.

155. The PCC and Watkin expressly authorize and consent to CPA Ontario providing notice of the terms of this Agreement to all CPA Ontario members and all provincial CPA Bodies and to publish such notification in accordance with the terms detailed herein.

156. Should the Discipline Committee accept this Agreement, Watkin agrees to and hereby waives his right to a full hearing, judicial review or appeal of the matter subject to the Agreement. Upon Watkin 's fulfillment of the requirements of this Agreement, the draft Allegations approved by the PCC shall be stayed.

157. Should the Discipline Committee approve this Agreement, no party will make any public statement that is inconsistent with this Agreement. Following approval, CPA Ontario may in its sole discretion issue a press release in respect of this outcome.

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

a. The terms of this Agreement, including all settlement negotiations between the PCC and Watkin leading up to its presentation to the Discipline Committee, shall be without prejudice to the PCC and Watkin; and

b. The PCC and Watkin 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 Agreement or the settlement negotiations.

Disclosure of Agreement and Independent Legal Advice

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

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

161. Watkin agrees and confirms that he has been assisted by independent legal counsel in negotiating and entering this Agreement.

All of which is agreed to for the purpose of this proceeding alone this 9 day of February 2024.

Kelvin Kucey

Kelvin Kucey, B.A., J.D.
On behalf of
the Professional Conduct Committee

Fred Watkin

Frederick Watkin, CPA ,CA
On his own behalf