CPA ONTARIO

CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

THE CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

IN THE MATTER OF: ALLEGATIONS OF PROFESSIONAL MISCONDUCT AGAINST **MIKE C. ZENTENO, CPA, CA,** A MEMBER OF CPA ONTARIO, BEFORE THE DISCIPLINE COMMITTEE

SETTLEMENT AGREEMENT

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

Introduction

1. The Professional Conduct Committee (PCC) approved draft Allegations of professional misconduct (Allegations) against Mike C. Zenteno, CPA, CA (Zenteno) (attached as **Schedule "A"**) 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 identify two time periods: July 1, 2018 to October 30, 2019, when Zenteno was engaged to perform the audit of the financial statements of three related entities, SVIF, SVPF and SVYF, for the year ended December 31, 2018; and October 1, 2021 to December 31, 2021, when he was engaged to perform a review of the financial statements of TMP, for the year ended September 30, 2021. The PCC alleges that Zenteno committed multiple breaches of the Code of Professional Conduct (Code), in that he failed to perform his professional work in accordance with generally accepted standards of the profession.

3. Zenteno admits that while engaged to provide assurance services, with respect to the following engagements, he failed to perform his professional work in accordance with generally accepted standards of the profession, contrary to Rule 206.1 of the Code:

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a. the audit of the financial statements of SVIF, for the year ended December 31, 2018 (**Doc 1**);
b. the audit of the financial statements of SVPF, for the year ended December 31, 2019 (**Doc 2**);
c. the audit of the financial statements of SVYF, for the year ended December 31, 2018 (**Doc 3**); (collectively the "Funds" or the "Audits"); and
d. the review of the financial statements of TMP, for the year ended September 30, 2021 (**Doc 4**).

Background

4. Zenteno obtained his Chartered Accountant designation in 2002, holds a Public Accounting Licence and is a partner at RSM Canada LLP. He has been member of CPA Ontario since 1999.

5. RSM was the auditor for the Funds and SAMI since their inception. Zenteno became the lead engagement partner for the audits of the Funds for the year ended December 31, 2018, on the retirement of the previous engagement partner, Susan Maynard, CPA, CA (Maynard). The audit of SAMI for the company's July 31, 2018, year-end was completed by Maynard.

6. SAMI was formed on April 4, 2013, to provide investment management, portfolio advisory and consulting services as an exempt market dealer, portfolio manager and investment fund manager registered with the Ontario Securities Commission (OSC).

7. On October 1, 2014, CF formed SVIF, followed by the formation of SVPF and SVYF on July 26, 2016 (collectively with SAMI the "SAMI Group").

8. SAMI was the trustee and manager of SVPF and SVYF and the manager of SVIF. Laurentian Bank Securities Inc. (Laurentian) was the prime broker and custodian for the Funds. SGGG Fund Services Inc. (SGGG) provided back-office administration services to the Funds and prepared the financial statements.

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9. The SAMI Group prepared their financial statements in accordance with International Financial Reporting Standards (IFRS).

10. Prior to October 14, 2016, Clarocity was called Zaio Corporation. Clarocity was an Alberta corporation and a reporting issuer in British Columbia, Alberta and Ontario with its common shares traded on the TSX Venture Exchange.

11. Clarocity was in the business of providing customers in the property valuation, underwriting and lending industries real-time access to certified appraisal reports from the company's patented database of proactively maintained residential property valuations prepared by licensed appraisers across the United States.

12. CF began investing in Clarocity on behalf of investors in August 2013, before the creation of SAMI. After the formation of the Funds, CF directed the Funds to invest in Clarocity.

13. From August 2016 to June 30, 2019, the Funds acquired approximately $16.5 million in Clarocity debentures. Debentures are a form of debt financing used by companies; they are a liability of the issuing company which pays interest on the debt. Clarocity issued both secured and unsecured debentures. In the event that a debenture issuer becomes insolvent and is wound up the secured debenture holders are repaid in priority from the proceeds of the assets that secure the debentures. While the unsecured debenture holders would only get repaid to the extent there are remaining assets after all the other secured creditors have been repaid. A company will therefore pay a higher interest rate on the unsecured debentures because an investor that acquires them assumes greater risk of not getting repaid relative to a secured debenture. CF also had SAMI enter into fee arrangements with Clarocity.

14. During 2019, SAMI exercised its security rights under the Clarocity debentures and took control of Clarocity to facilitate the sale of the company's assets to iLookabout Corp.

15. A receiver was appointed over Clarocity on June 11, 2019, who reported that debentures totaling $16.5 million were held by the Funds out of a total of $23.7 million debentures issued by Clarocity, and the liquidation value of Clarocity was in the range $3 to $4.8

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million, meaning the debenture holders would suffer a shortfall in the range of $20 to $22 million.

16. All the assets of Clarocity were acquired by iLookabout leading to the Funds receiving 18,947,182 common shares, warrants over a further 15,652,000 common shares and a $7,166,971 convertible debenture issued by iLookabout. The market price for iLookabout common shares at the close of trading on July 12, 2019, the date of the purchase and sale agreement for the sale to iLookabout, was $0.20.

17. The audits for the SAMI Group were performed under standard engagement terms as described in Canadian Auditing Standards (CAS).

18. The settlement agreement between the OSC and CF (Settlement) described a class action lawsuit that was commenced against SAMI in the Ontario Superior Court of Justice by an investor client of SAMI. The plaintiff later asked the Court to dismiss the action because: SAMI did not have an insurance policy that would respond to the claim; CF had no assets that could be used to satisfy the claim; and the iLookabout shares had increased in value such that the losses of the plaintiff and class action members had been made good. The Court agreed to dismiss the case stating: "it now appears [SAMI investors] have suffered no losses."

19. However, the sale to iLookabout which closed on July 12, 2019, included an agreement (Standstill Agreement) that restricted the Funds from selling the shares they held in iLookabout. Therefore, while the investors have not suffered any paper losses, they have been unable to liquidate their investments because the Standstill Agreement was still in effect as of July 2022 when the Settlement was reached.

20. Investment funds rely on retaining existing investors and attracting new investors. Investors base their investment decisions on the growth in the net asset value (NAV) per unit or per share because those units or shares can be redeemed for cash of that amount. NAV increases when the net assets of the fund increase which is predominantly due to increases in the fair values of investments held by the fund.

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21. The most significant risk for an investment fund therefore relates to the measurement of the value of the investments held.

22. In determining the fair value of an investment, different investments require differing degrees of estimation. Some investments are publicly traded, and a market price is readily available. The publicly available market price is referred to as a 'level 1' input into the measurement of those investments, and the investments are referred to as 'level 1 investments.' A 'level 2' input to an investment value is an input that is based on a publicly available market price but is adjusted in some way to make the input appropriate for measuring that level 2 investment. Where no public information is available, measuring the fair value of an investment will require the use of a valuation technique. In this case, the inputs are described as unobservable, and the investments are labelled 'level 3'.

23. The Funds held both level 1 and level 3 investments during the relevant period. The proportion of the portfolio that was level 3 increased for SVPF, SVYF and SVIF between December 31, 2017 and 2018.

24. Audit planning documentation for the audits of the Funds for the relevant years indicated that:

    a. The Funds have no audit committee;
    b. There is no oversight of the actions of senior management, financial reporting and internal control;
    c. Those charged with governance, namely CF, lack relevant business experience, technical or functional skills in one or more areas within the role; and
    d. No formal risk management function exists, which is to be expected for a group of funds of this size.

25. The lack of oversight over management (CF) also applied to investment values determined by him. The risk assessment matrix for the audits of the Funds identified that the valuation of investments as high risk for this reason and also stated:

> *Risk that the fair value of investments held will be overstated as a result of management's bias (i.e. to increase mgmt. fees, subscriptions to the funds etc) – potential that illiquids could be impaired and not properly written down. Some fair values*

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of portfolio holdings are not readily obtainable – risk that management has not properly valued these illiquid investments. (Doc #184.1)

26. Zenteno 's risk assessment matrix for level 3 investments considered the measurement (or Valuation assertion) of those investments to have significant inherent risk and medium control risk.

27. The only reference to controls included in the audit files is "everything is managed by [SAMI] and SGGG." The planning memo included the following statement under the heading "Financial reporting process":

> *Portfolio valuations are reviewed for reasonability. All reconciliations and manual entries are reviewed on a regular basis. For controls, reliance is placed on SGGG 3416 report.*

The Complaint

28. CPA Ontario's Standards Enforcement department (SE) became aware of these matters via allegations made by the OSC against SAMI, the Funds and its principal, CF, dated December 16, 2020.

29. On or about February 10, 2021, SE disclosed its complaint to RSM Canada LLP. By letter dated March 17, 2021, previous counsel for RSM LLP asserted that the OSC matter did not impugn the SAMI Group audits.

30. On June 24, 2022, the Capital Markets Tribunal approved a settlement agreement between the OSC, SAMI and CF.

31. On January 20, 2023, the PCC appointed Jodie Wolkoff, CPA, CA, DIFA, CBV, CFF and Paul Rhodes, CPA, CA (Investigators) to investigate Zenteno's standards of practice and the circumstances surrounding the SE complaint against Zenteno.

32. On or about September 13, 2023, upon review of the Investigators' report, dated August 28, 2023, the PCC directed allegations of professional misconduct against Zenteno for his professional conduct and his failure to perform his professional work in accordance with generally accepted standards of the profession.

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Generally Accepted Auditing Standards in 2017 and 2018

33. The standards for auditing applicable to the audits are described by GAAS. During 2017 and 2018, GAAS were published in the Assurance section of the CPA Canada Handbook.

34. 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 materially misstated financial statements.

35. To obtain reasonable assurance, GAAS set out various standards to be met, requirements to be fulfilled and steps to be taken. They include obtaining sufficient appropriate audit evidence while exercising professional skepticism, as well as completing EQCRs as required by GAAS.

36. CAS 200 "Overall objectives of the independent auditor and the conduct of an audit in accordance with Canadian Auditing Standards" describes the sufficiency and appropriateness of audit evidence as being interrelated, as follows:

> A28. Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit) or a firm's quality control procedures for client acceptance and continuance. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such

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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. The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate for its poor quality.

A30. Appropriateness is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature and is dependent on the individual circumstances under which it is obtained.

37. 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.

38. Pursuant to CAS 200.18-23, compliance with CAS is not optional.

Generally Accepted Standards for Review Engagements in 2020 to 2022

39. 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.

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40. 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.

41. 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.

42. 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.

43. Pursuant to CSRE 2400.7 to CSRE 2400.10, compliance with CSRE is mandatory.

44. Zenteno admits that the Allegations, set out below, accurately particularize and evidence his failure to comply with the Code and perform his professional services in accordance with generally accepted standards of practice of the profession.

Allegations

45. Allegations 1 through 3 and the relevant particulars relate and apply to each fund audit engagement and are similar in nature. For brevity, the evidence supporting the Allegations

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arising from the Audits is consolidated by particular and should be read with reference to the Allegations attached hereto.

46. Allegation 4 relates to the TMP review engagement. It is particularized separately and should be read with reference to the Allegations attached hereto.

Allegations: 1a, 2a, 3a

a. He failed to effectively plan the audit;

47. 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 significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.

48. CAS 230.9 requires the auditor, when documenting the nature, timing and extent of audit procedures performed, to record the identifying characteristics of the specific items or matters tested, who performed the audit work and the date such work was completed, and who reviewed the audit work performed and the date and extent of such review.

49. CAS 300.4 requires the auditor to plan an audit so that it will be performed in an effective manner.

50. CAS 315.13 requires the auditor, when obtaining an understanding of controls that are relevant to the audit, to evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel.

51. CAS 320.4 directs the auditor, in understanding the financial information needs of users of the financial statements, to make four assumptions of the users in determining materiality.

52. CAS 330.28(b) requires the auditor, when evaluating the sufficiency and appropriateness of audit evidence, to disclose documentation to support the linkage between the further audit procedures undertaken with the assessed risks at the assertion level.

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53. CAS 540.39(c) requires an auditor, in auditing accounting estimates and required disclosures, to include in the audit documentation the auditor's response(s) when management has not taken appropriate steps to understand and address estimation uncertainty.

54. CAS 700.6 requires the auditor to form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained and to clearly state that opinion in a written report.

55. Zenteno's audit program for investments suggested procedures for the auditors to consider but did not provide detailed guidance to the audit team as to what was required. The audit plan should have included a list of specific procedures to be performed for each type of investment to properly link the risk to the audit response. Further, Zenteno should have documented how he directed the audit team as to which audit procedures would provide sufficient appropriate audit evidence.

56. Zenteno was not sufficiently involved during the audits and failed to review the 2017 audit files to provide a basis for determining the appropriateness of his audit judgements and conclusions. Zenteno was unaware of disagreements in the 2017 audits with respect to the valuation of Clarocity debentures and failed to apply professional skepticism in considering whether those disagreements impacted the 2018 audits.

57. Zenteno failed to update the risk assessment during the audits. The low end of his estimate of fair value resulted in an impairment of the investment in Clarocity debentures and promissory notes. The sensitivity should have elevated the risk assessment but did not.

58. Zenteno failed to test controls he relied on in conducting the audit and forming his opinion. According to Zenteno, the connecting control over the accuracy, completeness, reasonability, and timeliness of CF's manual valuations is only applicable "when there is a change, or price event." Zenteno concluded that there is only a need to test this connecting control when there is "a change, or price event." The purpose of the connecting control over manual prices, however, was to determine whether manual prices should be

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changed. Zenteno did not perform tests of control over Level 3 investments to enable reliance to be placed on those controls.

59. Zenteno also relied on the active oversight of the actions of senior management and financial reporting in concluding that the risk assessment is Zone 4. The audit files did not document and test the implementation of any such controls, no such oversight control existed.

60. Zenteno's audit team's responses on the CLEAR 2018 form led to the incorrect conclusion that no EQCR was required. However, there is no narrative or other documentation in the audit files to justify that conclusion. This position is improper in light of the fact that CF was still the only director of SAMI with no oversight of his actions, meaning he is able to make all decisions, including estimating level 3 investment values to be reported in the Funds financial statements and that CF's relevant business experience and technical and functional skills were inadequate at the time of the 2017 audit, there is no evidence of any improvement in these skills at the time of the 2018 Funds audits with no oversight or risk management function.

61. Additionally, Zenteno's 2018 CLEAR form answered specific risk questions as Low/Medium when the effect on the zone rating should have been greater. Specifically:

    a. Whether the Funds have external debt was incorrectly answered Low risk, when all the Funds have material debt balances owed to the broker - the answer should have been high risk.
    b. Whether the valuation of investments for financial reporting purposes is independent of the trading function was answered low risk, but there is no segregation with respect to estimating Level 3 investment values, so the answer should have been high risk.
    c. The audit team expected management to take reasonable positions with respect to complex accounting matters based on prior experience. Zenteno was unaware of management's unconventional valuations of Clarocity debentures in the 2017 audits and that the resolution of those issues took the audit team a month to resolve. In failing to review the 2017 audit files of the Funds himself, Zenteno was

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unaware that "Management often takes aggressive or unusual positions" and "Discussions with external auditors regarding such matters are often difficult negotiations." The answer should have been high risk.

d. Whether the entity has a formal process for assessing, approving and monitoring counterparty risk was answered Low risk. SAMI, as the manager of the Funds, had no such policy and fair values were not formally estimated by management but were determined by the audit team as part of the audit process. The answer should have been High risk.

e. The audit team improperly claims that the SAMI Group has sufficient segregation of duties which they assessed as low risk. However, the most significant risk in the audit was the valuation of level 2 and 3 investments which were solely determined by CF with no review or oversight control and therefore no segregation. The answer should have been High risk.

f. In response to the question of whether the entity has "written valuation guidelines and procedures," Zenteno considered that other than the level 3 investments, there are no instruments that are hard to value and/or valuations are not subject to judgement. On the contrary, significant judgement was exercised by both CF and by the audit team, for example in determining an appropriate closing price for the iLookabout common shares. The answer should have been High risk.

62. Zenteno asserts that investment funds are usually assessed as Zone 4 unless they are non-listed reporting issuers, in which case they are assessed Zone 5, so he would have expected the Funds to be Zone 4. Given the facts and circumstances of the Funds and the accounting firm's prior audit experience, however, the responses in the 2018 CLEAR form should have resulted in a zone rating of greater than 4 and an EQCR should have been performed.

63. Zenteno failed to appropriately assess control risk. The controls provided by SGGG only addressed the level 1 investments. No connecting controls were provided by SAMI over level 2 and level 3 investment values – where CF had the opportunity to overstate investments values due to a lack of independent governance and limited to no publicly available information to corroborate values. As a result, the risk of material misstatements

at the assertion level was different for level 1 compared to levels 2 and 3 investments. The audit plan should have considered the risk of material misstatement separately in the audits of the Funds for level 1 investments (for which control risk could be less than high); and level 2 and 3 investments that are manually valued by management.

64. Control risk for the level 3 investments should have remained high because there were no controls over the estimated fair values of such investments, whether due to error or fraud. Zenteno acknowledges that control risk documentation was inconsistent and should have been documented as high risk consistently throughout the file for level 2 and 3 investments, although there were no level 2 investments.

65. Zenteno failed to perform planned audit procedures. A confirmation should have been obtained regarding the terms of the indebtedness, including the maturity date, interest rate, security, the minimum and maximum amounts borrowed during the year, however, the audit team did not obtain the complete agreement with Laurentian and relied on an old rate sheet dated June 27, 2016; and Procedure 9 in the 2018 Cash and Equivalents audit program required the auditor to obtain the most recent banking agreement. The working paper stated: "No covenants noted". The reference is to PERM 6, which is the rate sheet only. PERM 6 is page 8 of 8 but the first 7 pages of the agreement were not included in the audit file. There is no evidence they were obtained.

66. According to the OSC Settlement, Laurentian made a margin call in August of 2018 which resulted in Laurentian disposing of saleable investments to reduce the Funds borrowings. The preliminary analytical review for the 2018 audits included a trend analysis which identified that the bank indebtedness had decreased significantly. No inquiry of management or other procedures were performed to identify the reason for a significant reduction in the Funds' investments, including any covenant breaches, or, any violations of the agreement.

Allegations: 1b, 2b, 3b

b. He failed to appropriately consider and audit the risk of material misstatement of the financial statements resulting from fraud.

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67. CAS 200.15 requires the auditor to plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.

68. CAS 200.17 requires the auditor to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable them to draw reasonable conclusions on which to base their opinion.

69. CAS 210.6bi requires the auditor, when determining whether the preconditions for an audit are present, to obtain the agreement of management that it acknowledges and understands its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation.

70. CAS 230.8c requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

71. 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.

72. CAS 240.25 requires the auditor to evaluate whether the information obtained from the other risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present.

73. CAS 240.27 requires the auditor, when identifying and assessing the risks of material misstatement due to fraud, to apply the presumption that there are risks of fraud in revenue recognition, and to evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

74. CAS 240.33c requires the auditor, irrespective of their assessment of the risks of management's override of controls, to design and perform audit procedures for significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and other information obtained during the audit, and to evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

75. CAS 540.2 cautions auditors that accounting estimates vary widely in nature and are required to be made by management when the monetary amounts cannot be directly observed. The measurement of these monetary amounts is subject to estimation uncertainty, which reflects inherent limitations in knowledge or data. These limitations give rise to inherent subjectivity and variation in the measurement outcomes. The process of making accounting estimates involves selecting and applying a method using assumptions and data, which requires judgment by management and can give rise to complexity in measurement. The effects of complexity, subjectivity or other inherent risk factors on the measurement of these monetary amounts affects their susceptibility to misstatement.

76. CAS 540.16 requires the auditor, when identifying and assessing the risks of material misstatement relating to an accounting estimate and related disclosures at the assertion level, to take into account in identifying the risks of material misstatement and in assessing inherent risk: the degree to which the accounting estimate is subject to estimation uncertainty; and the degree to which key elements are affected by complexity, subjectivity, or other inherent risk factors.

77. CAS 540.22 requires the auditor, when testing how management made the accounting estimate, to perform further audit procedures that include procedures, designed and performed to obtain sufficient appropriate audit evidence regarding the risks of material misstatement relating to the selection and application of the methods, significant assumptions and the data used by management in making the accounting estimate; and how management selected the point estimate and developed related disclosures about estimation uncertainty.

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78. CAS 540.6 requires the auditor, in assessing control risk, to take into account whether the auditor's further audit procedures contemplate planned reliance on the operating effectiveness of controls. If the auditor does not plan to test the operating effectiveness of controls or does not intend to rely on the operating effectiveness of controls, the auditor's assessment of control risk is such that the assessment of the risk of material misstatement is the same as the assessment of inherent risk.

79. CAS 540.7 emphasizes that the auditor's further audit procedures including tests of controls need to be responsive to the reasons for the assessed risks of material misstatement at the assertion level, considering the effect of one or more inherent risk factors and the auditor's assessment of control risk.

80. CAS 540.23b requires the auditor, to perform further audit procedures to address whether judgments made in selecting the method of estimation give rise to indicators of possible management bias.

81. CAS 540.25 requires the auditor, in Testing How Management Made the Accounting Estimate, to carry out further audit procedures that address four key concerns.

82. CAS 540.27a requires the auditor, when in the auditor's judgment based on the audit evidence obtained, management has not taken appropriate steps to understand or address estimation uncertainty, to request management to perform additional procedures to understand estimation uncertainty or to address it by reconsidering the selection of management's point estimate or considering providing additional disclosures relating to the estimation uncertainty and evaluate management's response.

83. IFRS 13.10 details the overall fair value measurement approach and its objective to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. A fair value measurement requires an entity to determine four key elements.

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84. IFRS 13.9 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

85. IFRS 13.24 defines "fair value" as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions.

86. The arm's length Purchase Agreement dated seven days after the year end stated that the value of a common share was $5.28, which should have been considered the best indicator of fair value. The Funds investment is in common shares, and instead of relying on the price included in the Purchase Agreement, the audit team determined a range of fair values using meaningless values.

87. The audit team's inclusion of the $6.22 price of a preferred share to justify management's value of $5.70 of a common share shows a lack of professional skepticism, including recognizing the possibility that a material misstatement due to fraud could exist. Indicators of possible management bias should have led the audit team to reconsider whether sufficient appropriate audit evidence had been obtained.

88. The audit team inappropriately documented their fraud risk assessment. Management's ability to override controls to overstate investment values should have been considered a fraud risk but Zenteno failed to consider it as such. The circumstances under which estimated values of level 3 investments are generated were: SGGG does not provide any controls over manual investment values; Management determines the value of investments; the manual valuations are estimates based on level 3 inputs; and there are no controls over management such as a board or audit committee.

89. Zenteno's failure to discuss issues encountered in the prior year audits resulted in his inability to detect management bias to overstate investments over several accounting periods.

90. Zenteno failed to identify significant unusual transactions. The audit team did not identify any significant transactions outside the normal course of operations based on the journal

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entry testing performed. SAMI "evaluates [investees'] underlying business based on their ability to generate high quality future cash flow." An investment that earns additional shares for interest, and not cash, is therefore inconsistent with the Funds' stated investment objectives. The increasing concentration in Clarocity debentures between 2016 and 2018 should have also raised questions relative to the Funds' stated investment objectives. The Clarocity debentures should have been identified as significant unusual transactions.

91. Zenteno inappropriately rebutted the presumption of fraud risk in revenue. CAS includes a presumption that revenue is subject to a risk of fraud. In certain circumstances, that presumption can be rebutted. Zenteno justified revenue not also having higher inherent risk: "Financial gains are made upon the net assets of the Funds. Unitholders make their investment decisions on the appreciation of the Fund and management/dealers are compensated based on the fair value of the net assets. Therefore, the risk of fraud is with the pricing of the fund and the significant risk is accordingly identifies with the valuation of investments. Reliance on 3416 report and controls in place at SGGG mitigates the risk that revenue is misstated as revenue recognition is highly automated and does not allow a great deal of human interference." This statement is incorrect and Zenteno should have presumed a risk of fraud applied to revenue because level 3 investments are measured manually, and the fair value change is an unrealized gain or loss in comprehensive income.

Allegations: 1c, 2c, 3c

1c. He failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item "Investments at fair value through profit or loss 2,241,102"

2c. He failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item "Investments at fair value $22,314,540"

3c. He failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position line "Investments at fair value $7,112,108"

92. CAS 200.17 requires the auditor to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.

93. CAS 210.6bi requires the auditor, in determining whether the preconditions for an audit are present, to obtain the agreement of management that it acknowledges and understands its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation.

94. CAS 540.22 requires the auditor to test how management made its accounting estimates, by implementing further audit procedures designed and performed to obtain sufficient appropriate audit evidence regarding the risks of material misstatement relating to: the selection and application of the methods, significant assumptions and the data used by management in making the accounting estimate; and how management selected the point estimate and developed related disclosures about estimation uncertainty.

95. CAS 540.23(a) and (b) require the auditor, when testing how management made the accounting estimates, to perform further audit procedures to determine risks of material misstatement relating to the selection and application of the methods, significant assumptions and the data used by management in making the accounting estimate, and how management selected the point estimate and developed related disclosures about estimation uncertainty.

96. CAS 540.24(c) requires the auditor, when testing how management made the accounting estimate, to perform further audit procedures to obtain sufficient appropriate audit evidence regarding the risks of material misstatement relating to the selection and application of the methods, significant assumptions and the data used by management in making the accounting estimate; and how management selected the point estimate and developed related disclosures about estimation uncertainty.

97. CAS 540.27(a) requires the auditor, when the audit evidence obtained indicates that management has not taken appropriate steps to understand or address estimation

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uncertainty, to request management to perform additional procedures to understand estimation uncertainty or to address it by reconsidering the selection of management's point estimate or considering providing additional disclosures relating to the estimation uncertainty and evaluate management's response.

98. CAS 540.28-29 requires the auditor, when they develop a point estimate or range to evaluate management's point estimate and related disclosures about estimation uncertainty, to perform further audit procedures to evaluate whether the methods, assumptions or data used are appropriate in the context of the applicable financial reporting framework. If the auditor develops an auditor's range, they shall assess that range within two parameters of measurement.

99. CAS 540.33(c) & 34 require the auditor to evaluate whether sufficient appropriate audit evidence has been obtained, based on the audit procedures performed and audit evidence obtained, three key considerations. In making the evaluation the auditor is required to consider all relevant audit evidence obtained, whether corroborative or contradictory. If the auditor is unable to obtain sufficient appropriate audit evidence, they are required to evaluate the implications for the audit or the auditor's opinion on the financial statements.

100. CAS 540.39(c) requires the auditor to include in the audit documentation their response when management has not taken appropriate steps to understand and address estimation uncertainty.

101. CAS 265.7 and .8 require the auditor, when identifying a deficiency in internal controls, to determine based on the audit work performed, whether individually or in combination they constitute significant deficiencies.

102. Management is responsible for preparing the financial statements, including making any estimates required. No documentation or calculation was obtained from management to support the $5.70 share price at December 31, 2018. The audit program suggested obtaining a valuation report for non-publicly traded investments, but nothing was provided by CF. As a result, the audit team itself reperformed the calculation of the fair value.

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103. CF applied an inappropriate methodology to calculate fair value. Zenteno accepted the methodology used in management's Clarocity Valuation. Therefore, the value of the common share and warrant consideration increases as the assumed market price of iLookabout's common shares increases. At the current iLookabout share price of $0.20 the share consideration is valued at $5,200,000 and the warrants are valued at $1,750,000. At the highest assumed iLookabout share price of $0.50 those values become $13,000,000 and $6,475,000, respectively.

104. Zenteno accepted management's assertion that "it is likely that the share price will increase from the current $0.20 upon closing."Zenteno would not know if an increase in iLookabout's share price on closing the transaction was credible. These failures led Zenteno to conclude that there is no impairment in the value of the Clarocity investment because the actual value was expected to be in between the range of fair values calculated. Zenteno failed to document any analysis of management's methodology, including the application of professional skepticism over the potential that the estimate may be biased.

105. Details of the iLookabout transaction had been publicly announced with the latest announcement prior to the audit report date being on June 13, 2019. Therefore, the transaction was public knowledge, with the information reflected in the current share price of $0.20. The audit team inappropriately calculated a range of fair values for the consideration to be received in the iLookabout sale. The audit team should have calculated a point estimate for the value because the fair value was based on a defined transaction. Zenteno should have concluded that the bottom of their range of fair value is the appropriate point estimate and therefore that the combined misstatement of the Clarocity investment was $1,264,000.

106. Zenteno failed to document consultations undertaken by the audit team. Zenteno's audit team consulted with an internal valuations group regarding the valuation of Clarocity's enterprise value tax losses following the sale to iLookabout. Zenteno failed to ensure that the details of consultations held with other individuals and the resulting conclusions reached were documented in the audit file.

Allegations: 1d, 2d, 3d

d. He failed to identify and communicate significant control weaknesses to management;

107. CAS 265.9 requires the auditor to communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis.

108. CAS 265.11 requires the auditor's written communication to include a description of the deficiencies, an explanation of their potential effects, and sufficient information to enable those charged with governance and management to understand the context of the communication.

109. The value assigned to Vena was determined by management and was manually entered on the investment portfolio by SGGG. Zenteno should have considered management's failure to perform a rigorous fair value calculation a significant weakness in the Funds' processes and controls. That significant weakness in control should have been communicated in writing to management as a significant weakness but was not.

Allegations: 1e, 2e, 3e

e. He failed to appropriately consider and audit the risk of material misstatement of the financial statements resulting from non-compliance with laws and regulations;

110. CAS 250.11(b) requires the auditor to perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements.

111. CAS 250.13(a) & (b) requires the auditor, when obtaining an understanding of the entity and its environment, to obtain 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.

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112. CAS 250.15(a) & (b) requires the auditor to make inquiries of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with applicable laws and regulations and to inspect correspondence, if any, with the relevant licensing or regulatory authorities.

113. CAS 250.16 requires the auditor to remain alert to the possibility that other audit procedures applied may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention.

114. CAS 250.19-22 requires the auditor, where they suspect non-compliance, to execute three specific audit procedures to confirm or contradict that suspicion.

115. Zenteno failed to document an understanding of the legal and regulatory framework applicable to the entity and the industry or sector in which it operated and how the entity is complying with that framework. The statement on the audit planning memoranda should have included a detailed description of what needed to be complied with or what non-compliance would look like but did not. Zenteno and his audit team, therefore, did not obtain a general understanding of the legal and regulatory environment, as required, and did not document their understanding of how the Funds were complying with that framework. Zenteno should have understood, that the Funds' failure to comply with applicable laws and regulations may constitute a breach of securities law which may have implications for the continued operation of the Funds.

116. Zenteno failed to document the required inquiries of management to help identify instances of non-compliance with those laws and regulations that may have a material effect on the financial statements. Raising questions with management to obtain a proper understanding of the regulatory environment may have led the audit team to identify non-compliance and trigger further audit procedures.

117. Zenteno failed to inspect relevant correspondence with the relevant regulatory authorities as required. There is no evidence in the audit file that this procedure was performed.

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118. Zenteno failed to remain alert to the results of other audit procedures that may bring non-compliance or suspected non-compliance to his attention. The SVYF audit file for 2018 included a copy of the Pooled Fund Regulation (Regulation). The Regulation stated that risk would be managed through diversification across sectors, industries and geographies. The Regulation permitted SAMI to use leverage in SVYF to a maximum of 20% of NAV. As at December 31, 2018, SVYF held $5,764,276 or 81.0% of its investment portfolio of $7,112,108 in Clarocity common shares and debentures; and had a balance of $2,362,545 due to broker, which represented 44.9% of the NAV of $5,263,169.

119. The offering memorandum for SVIF also included a restriction on the fund from placing more than 30% of its portfolio, measured at cost, in private or other illiquid securities. At December 31, 2018, SVIF held $2,203,500 or 98.3% of its investment portfolio of $2,241,102 in Vena common shares and Clarocity debentures.

120. Zenteno admits that he was unaware of the restriction clause in the SVIF offering memoranda and that he would not consider such a restriction in a fund audit. The existence of such representations and restrictions and the knowledge obtained during the audits should have led Zenteno to suspect non-compliance and should have triggered an audit response.

Allegations: 1f, 2f, 3f

f. He issued an unqualified audit opinion on financial statements that were materially misstated;

121. CAS 700.10 requires the auditor to form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

122. CAS 700.11 requires the auditor, when forming their opinion, to conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, taking into account three specific factors.

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123. CAS 700.13 (c) and (d) require the auditor to evaluate whether the accounting estimates and related disclosures made by management are reasonable and whether the information presented in the financial statements is relevant, reliable, comparable, and understandable.

124. CAS 700.17 requires the auditor, where they conclude, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement, or they are unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, to modify the opinion in their auditor's report.

125. CAS 540.33(b) requires the auditor, in assessing accounting estimates, to evaluate, based on the audit procedures performed and audit evidence obtained, whether management's decisions relating to the recognition, measurement, presentation and disclosure of these accounting estimates in the financial statements are in accordance with the applicable financial reporting framework.

126. CAS 540.35 requires the auditor to determine whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework or are misstated.

127. IFRS 7.1(a) requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance.

128. IFRS 7.31 requires an entity to disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.

129. IFRS 7.33 requires an entity to disclose for each type of risk arising from financial instruments, the exposures to risk and how they arise; its objectives, policies and processes for managing the risk and the methods used to measure the risk; and any changes from the previous period.

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130. IFRS 7.39(a) requires an entity to disclose a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.

131. IFRS 13.91 requires an entity to disclose information that assists users of its financial statements to assess both assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements, and, for recurring fair value measurements using significant unobservable inputs (level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.

132. IFRS 13.94 requires an entity to determine appropriate classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy within which the fair value measurement is categorised.

133. IAS 1.29 requires an entity to separately present each material class of similar items and items of a dissimilar nature or function unless they are immaterial.

134. Zenteno issued audit reports on the financial statements for each of the Funds for the year ended December 31, 2018, that were materially misstated.

135. The Funds' financial statements are drafted by SGGG as part of the services provided. Zenteno failed to meet the requirements for the information needs of users in his audit of the draft financial statements. Significant information relating to the valuation of the investment in Clarocity debentures and promissory notes, which should have been disclosed, was either not considered or not disclosed in the final financial statements.

136. Zenteno failed to ensure disclosure of a meaningful accounting policy. The accounting policy for the valuation of investments should have disclosed more useful information. For example, for valuing investments that are not traded in an active market, "The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each Statement of Financial Position date. Valuation techniques used include the use of comparable recent arm's length transactions, discounted cash

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flow analysis, option pricing models and other valuation techniques commonly used by market participants." The information would have been more useful if it was specific to the assets held instead of generic. The valuation processes used for determining the fair values of level 3 investments was not disclosed. The fair value of the investment in Clarocity debentures and promissory notes was based on the proposed transaction with iLookabout but no disclosure was made of that basis of measurement.

137. Zenteno failed to ensure robust disclosures regarding the sensitivity of the fair value measurements. For example, for level 3 investments, a description of the sensitivity of the fair values calculated to changes in unobservable inputs was not disclosed. If the effect of changing one or more unobservable inputs to reflect reasonably possible alternative assumptions is significant, then that fact and the effect on fair value should be disclosed. The Funds' financial statements disclosed the effect of a 5% change in fair value of level 3 investments. No explanation or effect was provided of the changing an input to the fair value measurement.

138. Zenteno failed to appropriately distinguish between different classes of investment. Investments should have been allocated to appropriate classes for which disclosure about fair value should be provided. Level 3 investments included investments in common shares of private companies and fixed income securities such as debentures and promissory notes. The methodology and process for determining the fair values of each class and the sensitivity of those fair values to changes in assumptions would be different and the disclosures provided should have reflected those differences but did not.

139. Zenteno failed to ensure management's disclosure of other necessary information. For example, the financial statements did not disclose that a receiver had been appointed over Clarocity. IFRS prescribes minimum information to be disclosed in financial statements and includes a requirement to disclose additional information where necessary to meet the objective of IFRS. The appointment of a receiver was relevant to understand the basis of measuring the fair value of the Clarocity investment and should have been disclosed.

140. Zenteno failed to ensure management appropriately presented each Fund's statement of financial position. IFRS requires an entity to "present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial." IFRS presumes that trade and other payables are sufficiently different from other financial liabilities in terms of nature or function as to require separate disclosure on the statement of financial position. Additional line items are to be presented when such presentation is relevant to an understanding of the entity's financial position. The balances due to broker presented in the financial statements consisted of two components: borrowings that were used to increase the investments in each fund and an accounts payable balance due to the timing of settlement of investment purchase and sale transactions. The balances due to broker would be material to users of the financial statements if they were over performance materiality; Zenteno failed to ensure these balances were separately presented.

141. Zenteno failed to comply with National Instruments. Procedure 8 of the cash audit program requires the auditor to complete a Financial Statement Disclosure Checklist, which included the completion of an Investment Funds Disclosure Checklist, to ensure compliance with the disclosure requirements of National Instrument (NI) 81-102 Investment Funds (NI 81-102). Procedure 8 on the cash audit programs were signed off as complete. However, certain financial statement requirements listed in the Investment Funds Disclosure Checklist were answered "N/A" and as a result were not presented or disclosed in the financial statements; the requirement to separately present on the statement of financial position "(l) liabilities for portfolio assets purchased" were not complied with; and the requirement to disclose "4. j. the minimum and maximum amount borrowed during the period and significant terms relating thereto" were not met. Zenteno failed to ensure that the Funds disclosed useful information related to the extent of leverage used by the Funds, as required by NI 81-102 and IFRS.

142. Zenteno failed to ensure management's appropriate classification of broker balances within the Fund's cash flow statements. While, cash, including negative cash balances, can be part of an entity's cash management, the balances borrowed from the

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broker on margin at December 31, 2018 for the Funds should have been separately classified. The funds operating, or revenue generating activity is the purchase, sale and holding of investments, so Zenteno ought to have ensured that the change in the overdraft balances were presented as operating cash inflows and outflows and not as negative cash at these year ends. The correct presentation would have made it clear to users of the financial statements that the amounts borrowed from the broker on margin were used to purchase investments and not for cash management of the Funds.

143. Zenteno failed to ensure management's disclosure of the significance of borrowing to the Funds' financial position. The financial statements included the statement that "financial instruments and/or cash positions serve as collateral for any amounts due to broker." The financial statements did not provide adequate disclosure to allow users to assess the significance of borrowings to the Funds' financial position as it was not clear as to which financial instruments represented debt of the Funds or their carrying amounts. Zenteno ought to have ensured the financial statement disclosures were complete, including the terms and conditions of the collateral.

144. Zenteno failed to ensure management's disclosure of the significance of borrowing to the Funds' performance and the nature and extent of risks arising. The balances due to broker incur interest at variable rates based on prime plus a fixed margin. Zenteno failed to ensure that the financial statements provided adequate disclosure to allow users to assess the significance of borrowings to the Funds' performance and the nature and extent of risks arising from the use of debt.

145. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

146. The financial statements of the Funds disclose the definition of liquidity risk, as required, and provide the following detail "The Fund's exposure to liquidity risk is concentrated in the periodic redemptions of units. Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active market and can be readily disposed."

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147. Zenteno failed to ensure management provided a complete and accurate description of risk. The description of liquidity risk in the Funds' financial statements only refers to periodic redemptions of units. Liquidity risk also arises from other current liabilities, in particular the borrowings on margin due to the broker. Zenteno failed to ensure that the Funds disclosure of exposure to liquidity risk is accurate and comprehensive because it did not refer to the borrowings on margin.

148. Zenteno failed to disclose a maturity analysis of non-derivative financial liabilities, analyzed by appropriate time bands. In such an analysis, demand liabilities are included in the earliest time band.

149. Zenteno failed to instruct the Funds to correct an incorrect and misleading disclosure about the nature of the Funds' liquidity risk. The financial statements of the Funds stated that the Funds manage liquidity risk by "investing the majority of the Fund's assets in investments that are traded in an active market". Based on a review of traded investments to total assets for each of the Funds as at December 31, 2018 and 2017, by December 31, 2018, the Funds had the majority of their assets invested in untraded securities. Zenteno failed to ensure that the financial statements were factually correct and not misleading.

150. Zenteno ought to have ensured that the financial statements of the Funds provided the following information: the objectives, policies and processes for managing liquidity risk and the methods used by management to measure the risk; a description of how the Funds manage the liquidity risk inherent in the maturity analysis of financial liabilities, including a maturity analysis of assets held to manage the risk; whether the Funds have available room on borrowing facilities that can be accessed to manage the risk; whether the Funds had any facilities that could require the posting of collateral, such as margin calls; and, the extent of concentrations of liquidity risk due to the concentrations in assets held by the Funds.

151. Zenteno failed to ensure that management disclosed a change in exposure to liquidity risk. Laurentian made a margin call in August 2018 and sold a significant amount

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of the Funds' investments. The sale of the traded investments resulted in a concentration of investments in untraded debt and equities of private companies. Total untraded investments as a percentage of total assets for SVPF, SVYF and SVIF increased from 43.9%, 41.7% and 65.8%, respectively, to 72.1%, 77.1% and 89.8%, respectively between December 31, 2017 and 2018. Zenteno failed to ensure the Funds disclosed the change in exposure to liquidity risk during the year in the financial statements for the year ended December 31, 2018.

152. Zenteno permitted material misstatement in the Funds' financial statements by obscuring relevant information. The Funds' financial statements provided irrelevant disclosure. For example, the SVPF financial statements for the year ended December 31, 2018 included disclosure of derivative transactions and foreign exchange forward contracts. None of the Fund's used derivatives, including forward contracts, to manage exposure to risk. Zenteno ought to have ensured that the financial statements of the Funds were not materially misstated due to material information being obscured by irrelevant or immaterial information.

Allegation 4:

a. He failed to obtain an understanding of the entity:

153. CSRE 2400.43,.44 and .45 require the practitioner to obtain an understanding of the entity, its environment, and the applicable financial reporting framework, to identify areas in the financial statements where material misstatements are likely to arise and thereby provide a basis for designing procedures to address those areas. That understanding must include four key elements and identify in the financial statements where material misstatements are likely to arise.

154. CSRE 2400.57 requires the practitioner, when they become aware of a matter that causes them to believe the financial statements may be materially misstated, to design and perform additional procedures to permit them to conclude that the matter is not likely to cause the financial statements as a whole to be materially misstated or to determine that the matter causes the financial statements as a whole to be materially misstated.

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155. TMP had a policy of recording an allowance for uncollectible amounts for accounts receivable that are greater than 120 days old at the balance sheet date if they have not been collected. Therefore, any accounts receivable collected between the period when the analysis is conducted and the December 15, 2021, review report date could be inappropriately allowed for. As at September 30, 2021 and 2020, TMP recorded allowances of $1,202,428 and $1,551,183, respectively. A worksheet in the review file quantifies the difference in the allowance between the years as $348,755, which is a reduction in bad debt expense in the 2021 year.

156. Zenteno should have identified the application of the accounting policy as a system weakness that could give rise to a risk of material misstatement in the financial statements. Zenteno should have performed additional procedures to test whether the allowance for uncollectible accounts receivable would be material because of collections received after the period of the initial analysis was conducted up to the review report date.

b. He failed to obtain limited assurance over the Non-consolidated Balance Sheet line "Accounts receivable 4,104,245."

157. CSRE 2400.20 requires the practitioner to plan and perform the engagement with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.

158. CSRE 2400.45 requires the practitioner to identify areas in the financial statements where material misstatements are likely to arise.

159. CSRE 2400.57 requires the practitioner, when they become aware of a matter that causes them to believe the financial statements may be materially misstated, to design and perform additional procedures to permit them to conclude that the matter is not likely to cause the financial statements as a whole to be materially misstated or to determine that the matter causes the financial statements as a whole to be materially misstated.

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160. During the September 30, 2020, year end, TMP had recorded an allowance for 86% of the holdback receivable balance (holdback receivable of $582,089 of which $500,000 was allowed for). As at September 30, 2021, the allowance was increased to $650,000 on a holdback receivable balance of $734,588.90, or 88%. A comment by the engagement team states that TMP's accountant has been taking a conservative approach to the allowance due to the risk attached to collecting the balance.

161. The engagement team then commented that the percentage of the holdback balance allowed for is expected to be comparable year to year. Based on the risk that some clients refuse to pay holdbacks if there is an issue with the project, or the job is completed late or is over budget, he concluded that the policy is plausible and adequate.

162. Zenteno's understanding of the entity identified incentives to misstate income to manipulate bonuses and dividends as a fraud risk. The estimate of allowances for holdback receivable is entirely judgmental and could be used by management to manipulate the financial statements to achieve a desired result. Zenteno should have applied a higher level of professional skepticism and performed additional procedures to test whether allowances for holdback are reasonable based on TMP's historical experience.

163. Since the third quarter of 2023, Zenteno has attended specific course training in:

- Audit Valuation using the AICPA Private Investment Valuation Guidance
- Annual Independence Update
- Monitor Findings – Lessons Learned
- Annual Public Company Update
- Introduction to Ethics Decision Making Model
- Government and Regulatory Risk

Acknowledgement

164. Zenteno admits that, while acting as the engagement partner with respect to the Funds Audits, and the TMP review engagement as detailed herein, he 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, contrary to Rule 206.1 of the Code.

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Mitigating Factors

165. Zenteno has been cooperative throughout the CPA Ontario investigation. It is not alleged in this proceeding that Zenteno acted dishonestly in the conduct of the assurance engagements which are the subject of the Allegations, or during the PCC's investigation of same.

166. Zenteno has not been the subject of any prior complaint, investigation or other proceedings before CPA Ontario or its predecessor bodies.

Terms of Settlement

167. Zenteno and the PCC agree to the following Terms of Settlement:

a. A payment by way of fine in the amount of $50,000, payable to CPA Ontario by December 30, 2024;
b. A six-month suspension of Zenteno 's CPA Ontario membership and Public Accounting License, effective the date this Agreement is approved by the Discipline Committee;
c. Notice of the terms of this Settlement is to be published, including notice to be given to all members of CPA Ontario, the Public Accounting Standards Committee, and all provincial CPA bodies. In particular, notice of the suspension of Zenteno's membership and Public Accounting License resulting from this Settlement shall be published in the *Globe and Mail* newspaper with the costs of publication to be borne by Zenteno in addition to any other costs required by this Settlement, within 30 days of him being invoiced for same;
d. A payment by way of costs in the amount of $40,000, payable to CPA Ontario by December 30, 2024; and
e. A failure by Zenteno to comply with the financial terms of this Agreement shall trigger a 30-day compliance period. If Mr. Zenteno fails to cure his non-compliance within the 30-day period his membership in CPA Ontario shall be revoked without further notice to him and with full publicity in accordance with Regulation 6-2, s.48, published in the *Globe and Mail* newspaper with the costs of publication to be

borne by Zenteno in addition to any other costs required by this Settlement, within 30 days of him being invoiced for same.

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

169. The PCC and Zenteno expressly consent to and authorize CPA Ontario providing notice of the terms of this Agreement to all CPA Ontario members all provincial CPA Bodies and to publish notification in the newspaper identified above.

170. Should the Discipline Committee accept this Agreement, Zenteno agrees to waive his right to a full hearing, judicial review, or appeal of the matter subject to the Agreement. Upon Zenteno fulfilling the requirements of this Agreement, the Allegations, shall be permanently stayed.

171. 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 Zenteno leading up to its presentation to the Discipline Committee, shall be without prejudice to the PCC and Zenteno; and

b. The PCC and Zenteno 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 Settlement Agreement

172. This Agreement and its terms will be treated as confidential by the PCC and Zenteno, 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 Zenteno or as may be required by law.

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

All of which is agreed to for the purpose of this proceeding alone this 7th day of October, 2024.

Kelvin Kucey

Kelvin Kucey, J.D.
On behalf of
The Professional Conduct Committee

Mike Zenteno, CPA, CA

Schedule "A"

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CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

TO: Michael C. Zenteno, CPA, CA

AND TO: The Discipline Committee of CPA Ontario

The Professional Conduct Committee of CPA Ontario hereby makes the following Allegations of professional misconduct against Michael C. Zenteno, CPA, CA, a member of CPA Ontario:

1. THAT the said Michael C. Zenteno, in or about the period of December 1, 2018 to July 31, 2019, while engaged to perform an audit of the financial statements of SVIF for the year ended December 31, 2018, 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 effectively plan the audit;

   b. He failed to appropriately consider and audit the risk of material misstatement of the financial statements resulting from fraud;

   c. He failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item "Investments at fair value through profit or loss $2,241,102;"

   d. He failed to identify and communicate significant control weaknesses to management;

   e. He failed to appropriately consider and audit the risk of material misstatement of the financial statements resulting from non-compliance with laws and regulations;

   f. He issued an unqualified audit opinion on financial statements that were materially misstated;

2. THAT the said Michael C. Zenteno, in or about the period of December 1, 2018 to July 31, 2019, while engaged to perform an audit of the financial statements of SVPF for the year ended December 31, 2018, 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 effectively plan the audit,

b. He failed to appropriately consider and audit the risk of material misstatement of the financial statements resulting from fraud;

c. He failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item “Investments at fair value $22,314,540;”

d. He failed to identify and communicate significant control weaknesses to management;

e. He failed to appropriately consider and audit the risk of material misstatement of the financial statements resulting from non-compliance with laws and regulations;

f. He issued an unqualified audit opinion on financial statements that were materially misstated;

3. THAT the said Michael C. Zenteno, in or about the period of December 1, 2018 to July 31, 2019, while engaged to perform an audit of the financial statements of SVYF for the year ended December 31, 2018, 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 effectively plan the audit;

    b. He failed to appropriately consider and audit the risk of material misstatement of the financial statements resulting from fraud;

    c. He failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position line “Investments at fair value $7,112,108;”

    d. He failed to identify and communicate significant control weaknesses to management;

    e. He failed to appropriately consider and audit the risk of material misstatement of the financial statements resulting from non-compliance with laws and regulations;

    f. He issued an unqualified audit opinion on financial statements that were materially misstated;

4. THAT the said Michael C. Zenteno, in or about the period of October 1, 2021 to December 31, 2021, while engaged to perform a review of the financial statements TMP for the year ended September 30, 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 obtain an understanding of the entity; and

b. He failed to obtain limited assurance over the Non-consolidated Balance Sheet line “Accounts receivable 4,104,245.”

Dated at Waterloo, Ontario this ______ day of _______ 2024.

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J.C. Deganis, FCPA, FCA, FCMA – Vice Chair
PROFESSIONAL CONDUCT COMMITTEE