CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

THE CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

IN THE MATTER OF: ALLEGATIONS OF PROFESSIONAL MISCONDUCT AGAINST **SUSAN L. MAYNARD, 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 Susan L. Maynard, CPA, CA (Maynard) (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 listed in the Standards Brief.

2. The Allegations identify a period of July 1, 2013 to October 30, 2017, when Maynard was engaged to provide assurance services to SAMI, and three related entities, SVIF, SVPF and SVYF, which had common management. The PCC alleges that Maynard committed multiple breaches of the Rules of Professional Conduct (Rules) and the Code of Professional Conduct (Code), in that she failed to perform her professional work in accordance with generally accepted standards of the profession.

3. While acting as the engagement partner, Maynard failed to perform her professional work in accordance with generally accepted standards of the profession, contrary to Rule 206.1 of both the Rules and Code, with respect to the following engagements:

    a. the audit of the financial statements of SAMI, for the year ended July 31, 2014 (**Doc 1**);

b. the audit of the financial statements of SAMI, for the year ended July 31, 2015 (**Doc 2**);

c. the audit of the financial statements of SAMI, for the year ended July 31, 2016 (**Doc 3**);

d. the audit of the financial statements of SAMI, for the year ended July 31, 2017 (**Doc 4**);

e. the audit of the financial statements of SVIF, for the year ended December 31, 2016 (**Doc 5**);

f. the audit of the financial statements of SVPF, as at and for the period from commencement of operations July 26, 2016 to December 31, 2016 (**Doc 6**);

g. the audit of the financial statements of SVYF, as at and for the period from commencement of operations July 26, 2016 to ended December 31, 2016 (**Doc 7**);

h. the audit of the financial statements of SVIF, for the year ended December 31, 2017 (**Doc 8**);

i. the audit of the financial statements of SVPF, for the year ended December 31, 2017 (**Doc 9**);

j. the audit of the financial statements of SVYF, for the year ended December 31, 2017 (**Doc 10**); and

k. the audit of the financial statements of SAMI, for the year ended July 31, 2018. (**Doc 11**)

- collectively (‘the Audits”).

<u>Background</u>

4. Maynard obtained her Chartered Accountant designation in 1987, held a Public Accounting Licence and most recently worked as an assurance partner with RSM LLP, until her retirement. She has been member of CPA Ontario since 1987.

5. Maynard ceased providing accounting services to the public on her retirement on April 20, 2022.

The Client

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 the “Funds” or 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 draft financial statements.

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 fee arrangements with Clarocity.

14. A receiver was appointed over Clarocity on June 11, 2019.

15. In or about 2013, Maynard was engaged to audit SAMI's opening balance sheet or initial period of activity as part of the company's registration application to be filed with the OSC. The first audited financial statements for SAMI were for April 4 to 30, 2013. Maynard issued an unqualified audit opinion on those financial statements dated May 6, 2013.

16. Maynard was the lead engagement partner for all entities in the SAMI Group from their inception through to the year ended July 31, 2018 for SAMI and the year ended December 31, 2017 for the Funds.

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

18. During 2019, SAMI exercised its security rights under the Clarocity debentures and took control of Clarocity in order to facilitate the sale of the company's assets to iLookabout. Included in the consideration received by the Funds were shares in iLookabout, iLookabout also assumed a portion of the outstanding Clarocity debentures.

19. 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.”

20. 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.

21. 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.

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

23. 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’.

24. 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 from 35.4%, 29.7% and 30.0% respectively as at December 31, 2016 to 44.6%, 42.6% and 67.1%, respectively as at December 31, 2017.

25. Audit planning documentation for the audits of the Funds for the relevant years confirmed 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.

26. 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 the valuation of investments as high risk for this reason and 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 of portfolio holdings are not readily obtainable – risk that management has not properly valued these illiquid investments. (Doc #184.1)*

27. Maynard'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.

28. 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

29. 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.

30. On or about February 10, 2021, SE disclosed its complaint to Maynard. By letter dated March 17, 2021, counsel for Maynard asserted that the OSC matter did not impugn the SAMI Group audits led by Maynard.

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

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

33. The investigation focused on Maynard's standards of practice arising from the audits of SAMI for the company's years ended July 31, 2014 to 2018 and for the Funds for their years ended December 31, 2014 to 2017, for which Maynard was the lead engagement partner.

34. On or about September 13, 2023, upon review of the Investigators' report, dated August 28, 2023, the PCC directed allegations of professional misconduct, pertaining to Maynard 's professional conduct and her failure to perform her professional work in accordance with generally accepted standards with respect to the SAMI Group audits.

Generally Accepted Auditing Standards in 2014 to 2018

35. The standards for auditing applicable to the audits are described by GAAS. During 2014-2018, GAAS were published in the Assurance section of the CPA Canada Handbook.

36. 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.

37. 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.

38. 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 the 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.
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> 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.

39. 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.

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

41. Maynard admits that the Allegations, set out below, accurately particularize her failure to comply with the Rules and Code and perform her professional services in accordance with generally accepted standards of practice of the profession.

The Allegations arising from the Audits

42. As detailed in para. 3 above, this Agreement addresses 11 audits of four entities: SAMI, and its three related Funds - SVIF, SVYF and SVPF (the "Funds").

43. The admitted standards deficiencies arising from Maynard's audits of SAMI are distinct from the deficiencies arising from the audits of the Funds. The admitted standards deficiencies for the audits of the Funds are similar in nature with variation of certain values. The following evidence should be read with reference to the Allegations.

44. For clarity and conciseness, the parties categorize the Allegations, particulars, and evidence, as follows:

A. SAMI Audits 2013-2017
B. Fund Audits

a. *Planning*

b. *Execution*

c. *Completion* - allegations regarding financial statement disclosure are reported in three tranches of deficiency.

C. SAMI Audit 2018

A. SAMI Audits 2013-2017

Allegation 1:

a. She failed to audit the opening balances as at July 31, 2013; and

45. CAS 510.3, requires the auditor, when conducting an initial audit engagement, to obtain sufficient appropriate audit evidence about whether:

a. Opening balances contain misstatements that materially affect the current period's financial statements; and

b. Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

46. CAS 510. 6(c)(ii) & (iii) requires the auditor to obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements by performing specific audit procedures.

47. The initial audit engagement for SAMI was an audit of the financial statements for the period from April 4 to 30, 2013 which was required to be filed with the OSC as part of SAMI's application to become licensed as an exempt market dealer. SAMI selected July 31 as its year end and the next audited financial statement was for the year ended July 31, 2014. That financial statement included comparative financial information as at and for the period ended July 31, 2013.

48. Any misstatements in the comparative information would affect the financial statements for the July 31, 2014 year on which Maynard opined. Therefore, in order for Maynard to issue a clean audit opinion on the financial statements for the year ended July 31, 2014 audit procedures are required to be performed on that comparative information. Maynard failed to do so.

b. She failed to appropriately consider and audit the risk of material misstatement of the financial statements resulting from non-compliance with laws and regulations, other than excess working capital requirements.

49. CAS 250.3 clarifies that ensuring compliance with laws and regulations is the responsibility of management.

50. CAS 250.15(a) & (b) Consideration of Laws and Regulations in an Audit of Financial Statements distinguishes between the auditor's responsibilities for:

   a. Those laws and regulations that have a direct effect on balances and disclosures included in the financial statements; and

   b. Those that do not directly affect the financial statements but that are fundamental to the operation of the business.

51. SAMI's compliance with securities laws and regulations fell into the latter category and therefore certain audit procedures were to be performed.

52. CAS 250.16 requires the auditor to remain alert to the results of other audit procedures that may bring non-compliance or suspected non-compliance to the auditor's attention.

53. CAS 315.19 requires the auditor to obtain an understanding of the entity and its environment, including "a general understanding of:

   a. The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and

   b. How the entity is complying with that framework.

54. The audit memo for the audit of the opening statement of financial position as at April 30, 2013 stated that due to the simplicity of the balances and the extremely limited transactions that completion of document P34 Laws and regulations, amongst others, is “waived.”

55. The audit team’s understanding documented on the audit planning memoranda for the audits of December 31, 2014, 2015, 2016 and 2017 stated:

    a. That SAMI needs to file its audited financial statements with the OSC within 90 days of the year end; and

    b. The “OSC regulates all of its licensees.”

56. To open a separately managed account with SAMI, investment clients signed a Portfolio Management Agreement and Investment Policy Statement (PMA & IPS). Those agreements made various representations to clients related to the manner in which their money would be invested. Representations included: diversification of investments over multiple industry sectors; that fixed income investments would be primarily in investment grade bonds; and limits on the alternative investments that may be held.

57. The statement on the audit planning memoranda referred to OSC regulation but provided no detail as to what needed to be complied with or what non-compliance would look like. The audit team, led by Maynard, therefore did not obtain a general understanding of the legal and regulatory environment, as required, and did not understand how SAMI was complying with that framework.

58. Although auditors are not expected to monitor an entity’s compliance with investor contracts, Maynard should have understood that SAMI’s failure to comply with the terms of the PMA & IPS may constitute a breach of securities law which may have implications for the continued operation of SAMI’s business.

59. Maynard failed to make inquiries of management and, where appropriate, those charged with governance, as to the entity’s legal framework compliance.

60. Maynard failed to inspect correspondence, if any, with the relevant regulatory authorities.

61. Maynard failed to remain alert to the results of other audit procedures that may bring non-compliance or suspected non-compliance to the auditor's attention.

B. Fund Audits

a. Planning

Allegations: 2(a), 3(a), 4(a), 5(a), 6(a), 7(a):

She failed to effectively plan the audit;

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

63. CAS 315.25 requires the auditor, in identifying and assessing the risks of material misstatement, to obtain an understanding of the entity's information system and communication relevant to the preparation of the financial statements, through performing specific risk assessment procedures.

64. CAS 320.4 requires the auditor to understand the financial information needs of users of the financial statements in determining materiality.

65. CAS 330.28(b) requires the auditor to document the linkage between the nature, timing and extent of further audit procedures to be performed to address the risk of material misstatement at the financial statement level and the assessed risks at the assertion level.

66. Maynard'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. Further, Maynard should have directed the audit team as to which audit procedures would provide sufficient appropriate audit evidence.

67. 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 those investment values due to a lack of independent governance and limited to no publicly available information. 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 were manually valued by management.

68. Performance materiality for all audits of the Funds was set at 85% of overall materiality. Maynard justified the 85% assessment in all these audits: "there is an expectation of few errors given the experience of SGGG, securities in the portfolio are all active traded public listed companies and the small number of transactions." However, a considerable portion of the investments held by the Funds were untraded.

69. Maynard's materiality assessment was at the top of the range of 0.5% to 1% of net assets. Although determining performance materiality is a matter of professional judgement a significant portion of the Fund's portfolios was level 3 investments. The estimation uncertainty applicable to those investments should have led to a bigger margin to avoid material misstatement of the financial statements. Maynard's use of 85% was too high in the circumstances.

Allegations 2(b), 3(b), 4(b), 5(c), 6(c), 7(c):

<u>She failed to appropriately consider and audit controls that addressed a significant fraud or risk area</u>;

70. CAS 330.8 requires the auditor to design and perform tests of controls to obtain sufficient appropriate audit evidence regarding the operating effectiveness of controls where the auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively.

71. CAS 330.9 requires the auditor, in designing and performing tests of controls, to obtain more persuasive audit evidence the greater the reliance the auditor places on the effectiveness of a control.

72. CAS 315.25 requires the auditor, in identifying and assessing the risks of material misstatement, to obtain an understanding of the entity's information system and communication relevant to the preparation of the financial statements, through performing specific risk assessment procedures.

73. CAS 330.16 requires the auditor, when evaluating the operating effectiveness of controls upon which they intend to rely, to evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively.

74. CAS 330.17 requires the auditor, when deviations from controls upon which they intend to rely are detected, to make specific inquiries to understand these matters and their potential consequences, and to determine whether: the tests of controls that have been performed provide an appropriate basis for reliance on the controls; additional tests of controls are necessary; or, the risks of material misstatement need to be addressed using substantive procedures.

75. 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.

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

77. CAS 540.38 requires the auditor to communicate with those charged with governance or management about certain matters, including significant qualitative aspects of the entity's accounting practices and significant deficiencies in internal control, respectively.

78. SAMI’s principal, CF, had the opportunity to overstate investment values due to a lack of independent governance and limited to no publicly available information. Control risk for the level 3 investments should have remained high because there were no controls over misstatements, whether due to error or fraud, in CF’s estimates.

79. Maynard applied an inappropriate assessment of 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 those investment values due to a lack of independent governance and limited to no publicly available information. 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. Control risk for the Level 3 investments should have remained high because there were no controls over misstatements, whether due to error or fraud, in CF’s estimates.

80. Maynard asserted that 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.” Since there were no price changes at December 31, 2017, Maynard concluded that there was no need to test this connecting control. The purpose of the connecting control over manual prices, however, was to determine whether manual prices should be changed. Maynard did not but should have performed tests of control to enable reliance to be placed on those controls.

81. The auditors found financial statement misstatements totalling $1,219,000 for all the Funds combined due to a draw down fee and standby charge not being recorded by SGGG. Maynard failed to report the significant weakness in control to those charged

with governance and failed to reconsider the audit approach given the plan to rely on the controls over financial reporting provided by SGGG.

Allegations 2(c), 3(c), 4(c), 5(b), 6(b), 7(b):

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

82. 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.

83. 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.

84. 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.

85. 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.

86. 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.

87. 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.

88. 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.

89. 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

90. the degree to which key elements are affected by complexity, subjectivity, or other inherent risk factors.

91. 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.

92. 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.

93. 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, taking into account the effect of one or more inherent risk factors and the auditor's assessment of control risk.

94. 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.

95. 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.

96. IFRS 13.10 and B2 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.

97. 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 (i.e.

an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

98. CF had the opportunity to overstate investment values due to a lack of independent governance and limited to no publicly available information. It was fundamental for Maynard to adhere to the requirements of the standards. As a starting point, control risk for the level 3 investments should have remained high because there were no controls over misstatements, whether due to error or fraud, in CF's estimates.

99. As a pre-condition for an audit, management is responsible for preparing the financial statements including making any estimates that are required. The investment portfolio lists the quote type for the Clarocity debentures as "cost." There is no evidence that any valuation was performed by management. The audit program required the auditors to obtain a valuation report for non-publicly traded investments to support the value. A valuation report was neither requested nor obtained from management but should have been given the worsening financial position of Clarocity over the years.

100. Maynard's audit procedure was incomplete. The Funds initial investment in Clarocity was made in July 2016. Maynard obtained the financial statements of Clarocity for the interim period ended September 30, 2016 and noted that Clarocity continued to incur losses but that there were no indicators of impairment. Had a rigorous analysis of those financial statements been performed and documented in the audit files it would have also revealed that the company had a working capital deficiency (current assets minus current liabilities) at September 30, 2016 of $7,588,850 based on the amounts reported in the financial statements and the financial statements had not been reviewed by the company's auditor.

101. The non-convertible debentures issued by Clarocity and outstanding at September 30, 2016 were demand liabilities because their terms included a demand feature, exercisable by the holder on six months notice. The working capital deficit at September 30, 2016 was therefore, $11,972,123 not $7,588,850 while included in current assets was a cash balance of only $974,049 while the company's operating activities before working capital changes consumed $4,028,412 in the nine-month period. The financial statements disclosed going concern uncertainties "cast significant

doubt on the Company’s ability to continue as a going concern.” Clarocity’s continuance was dependent on raising more funds from financing to not only continue operations but also for “the continued forbearance of its creditors.”

102. These factors indicated that impairment may have occurred and should have led Maynard to insist that management complete a valuation of the debentures held as at December 31, 2016 instead of assuming that the cost of the debentures still represented fair value. If management did not complete a valuation, Maynard should have done so.

103. Maynard included information that was not relevant audit evidence. A procedure in the audit program was to review the most recently completed offering to support the fair value of existing investments. The September 2016 debenture issue by Clarocity provided limited assurance in this regard. The September 2016 funding was provided exclusively “by SAMI on behalf of managed accounts and funds.” Therefore, the procedure did not provide relevant audit evidence to enable the auditor to draw reasonable conclusions on which to base the audit opinion because the issuance was non-arm’s length.

104. The accounting policy for the 2014, 2015, 2016 and 2017 Fund Audits was not in accordance with IFRS because the measurement bases used are not measures of fair value as defined in IFRS. When measuring fair value “an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date”. A market participant would take into account the future value of a warrant in determining its price. The measurement of warrants in these years may have resulted in a material understatement of the Funds’ investments.

105. It appears that Maynard lacked an appropriate level of knowledge and industry experience to assess the fair value of warrants even though such valuation may not have been material to the financial statements in all periods audited. Regardless, the failure to apply an accounting policy consistently over the four-year period, or indeed between any two years, indicates a lack of knowledge of IFRS and of industry experience.

106. Maynard failed to complete the required fraud risk assessment. The document Fraud considerations – execution and completion, includes the statement: “Only complex transaction is valuation of investment in Vena, a non-publicly traded company. Holding was not revalued during the year…” The Clarocity investment is not mentioned as being subjective but should have been.

107. Maynard failed to identify significant unusual transactions. More specifically Maynard failed to identify any significant transactions outside the normal course of operations. The cash completeness testing states: “As per January 2018 news release on Sedar, Clarocity issued common shares to debenture holders in lieu of cash as consideration for interest payments.” 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 Clarocity debentures should have been identified as significant unusual transactions but were not.

108. Maynard provided an inappropriate rebuttal of the presumption of no 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. Maynard 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 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 is incorrect, Maynard 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.

109. Maynard failed to exercise sufficient skepticism throughout the audit of the Clarocity debenture values during the audit, despite knowing that CF was anxious about a possible impairment in value of Clarocity and he was “…sending off hand

emails about the call feature and now about a possible write-up of another private company asset."

110. Management's biases in wanting to avoid a write down of the debentures while wanting to record an offsetting write-up of another investment went unnoticed by Maynard, she confirmed that management's anxiety had no effect on the audit strategy.

111. Additionally, Maynard accepted without question management's explanation that the facilities should not be *pari pasu* despite the legal agreements stating that they were and the 2017 Clarocity Memo identified that all the debentures had a demand feature exercisable by the holder.

b. Execution

Allegations 2(d), 3(d), 4(d), 5(d), 6(d), 7(d) (with value variation of Investments):

> **2d. She failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item "Investments at fair value through profit or loss 1,041,277";**
>
> **3d. She failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item "Investments at fair value 19,293,889";**
>
> **4d. She failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item "Investments at fair value 6,377,768";**
>
> **5d. She failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item "Investments at fair value through profit or loss 3,135,726";**
>
> **6d. She failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item "Investments at fair value 30,712,505";**
>
> **7d. She failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item "Investments at fair value 11,894,037".**

112. 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.

113. 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.

114. CAS 230.8 &.9 requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand three distinct areas of interest and to specifically document what took place.

115. CAS 500.11 requires the auditor, if they have concern with inconsistency in, or doubts over reliability of audit evidence, to determine what modifications or additions to audit procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit.

116. 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.

117. 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.

118. 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 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.

119. 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.

120. CAS 540.33(c) & 34 require the auditor to evaluate, based on the audit procedures performed and audit evidence obtained, three key considerations. In making the evaluation the auditor is required to take into account 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.

121. 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.

122. CAS 580.4 directs the auditor that management's written representations, although they provide necessary audit evidence, do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal and should not affect the nature or extent of other audit evidence that the auditor obtains about the fulfillment of management's responsibilities, or about specific assertions.

123. IFRS 13.11 defines fair value measurement as applying to a particular asset or liability and requires the entity to account for the characteristics of the asset or liability, such as the condition and location of the asset and restrictions, if any, on the sale or use of the asset, if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

124. The Funds initial investment in Clarocity was made in July 2016. The audit team obtained the financial statements of Clarocity for the interim period ended September 30, 2016 and noted that Clarocity continued to incur losses but that there were no

indicators of impairment. Had a rigorous analysis of those financial statements been performed and documented in the audit files it would have also revealed the following:

a. The company had a working capital deficiency (current assets minus current liabilities) at September 30, 2016 of $7,588,850 based on the amounts reported in the financial statements;

b. The financial statements had not been reviewed by the company's auditor. The non-convertible debentures issued by Clarocity and outstanding at September 30, 2016 were demand liabilities because their terms included a demand feature, exercisable by the holder on six months notice. The working capital deficit at September 30, 2016 was therefore, $11,972,123 and not $7,588,850;

c. Included in current assets was a cash balance of only $974,049 while the company's operating activities before working capital changes consumed $4,028,412 in the nine-month period;

d. The financial statements disclosed going concern uncertainties that "cast significant doubt on the Company's ability to continue as a going concern." Clarocity's continuance was dependent on raising more funds from financing to not only continue operations but also for "the continued forbearance of its creditors".

125. These factors indicated that impairment may have occurred and should have led Maynard to insist that management complete a valuation of the debentures held as at December 31, 2016 instead of assuming that the cost of the debentures still represented fair value. If management did not complete a valuation, Maynard should have done so.

126. One possible procedure included in the audit program was to review the most recently completed offering to support the fair value of existing investments. The September 2016 debenture issue by Clarocity provided limited assurance in this regard. The September 2016 funding was provided exclusively "by SAMI on behalf of managed accounts and funds." Therefore, the procedure did not provide relevant audit

evidence to enable the auditor to draw reasonable conclusions on which to base the audit opinion because the issuance was non-arm's length.

127. Maynard directed several consultations with RSM's valuations group after March 30, 2018 and before the audit report was issued. Consultations were critical because CF did not complete a formal valuation. Maynard failed to ensure that the details of consultations held with other individuals and the resulting conclusions reached were documented in the audit file.

128. Maynard failed to correct inconsistencies in the audit documentation and the ultimate audit conclusions including an impairment that would affect the most recent debentures. However, an impairment was calculated of the Standby Facility, which was secured by all of Clarocity's property and assets and would therefore be impaired only after the later, unsecured, debentures have been fully impaired although the audit team concluded that for an impairment to have occurred would mean the share price of Clarocity's common shares would be zero. However, the share price was not zero and an impairment was calculated.

129. Furthermore, the discount rate for the Standby Facility was 40% because "it also takes into account the uncertainty of whether a deal would take place…". The statement implies that a sale of the business is the only remaining option left to Clarocity's management. All debentures issued by Clarocity were due on demand, with 6 months' notice, at the option of the holder. That same uncertainty would therefore apply to all debentures and not only the debentures that have matured. Maynard's audit team calculated an impairment of $4.1 million for the debentures utilizing an interest rate of 51% based on the latest round of financing.

130. However, the audit file did not include any reference to the calculated $4.1 million misstatement. Maynard failed to document these inconsistencies and how they were resolved, including through the consultations with valuation specialists, to conclude that the calculated impairment was incorrect.

131. Maynard failed to consider other readily available audit evidence. Clarocity's financial position had become more precarious, as disclosed in the December 31,

2017 financial statements, because it had insufficient funds and its options included “a significant curtailment or cessation of operations or development of new products”. It was unclear whether Clarocity was a going concern at December 31, 2017, Maynard did not take these circumstances into account in considering the fair value of the debentures.

132. Maynard inappropriately calculated a point estimate (or a single value) for the fair value of the Standby Facility. The audit team’s calculation of a point estimate was inappropriate given the subjectivity, and sensitivity, of the present value to changes in the estimated closing date of the sale. A range of estimated values should have been calculated.

133. Maynard obtained a confirmation from SAMI’s lawyer regarding the terms of the Intercreditor Agreement. Given the materiality of the value of the debentures to the financial statements, higher quality and more reliable audit evidence was required. Maynard should have consulted with independent legal counsel because SAMI’s lawyer could not provide reliable and objective audit evidence because he was both the SAMI Group’s lawyer and a director of Clarocity.

134. Maynard failed to corroborate management’s representations. Management had made various representations related to the debentures and the sale of Clarocity’s business. No documentation, which would have existed and been available to the auditors, was obtained from management to corroborate those representations.

135. Maynard erroneously accepted ineffective management representations. The representation letter obtained from management included these statements:

> *15. All securities held by the Partnership were valued at fair value as at December 31, 2017. The fair value of illiquids have all been determined in accordance with our fair value policies and procedures. We have applied these policies and procedures consistently throughout the year. The value of investments with quoted market values are valued in accordance with our accounting policies.*
>
> *In regards to its investment in Clarocity, management believes that all debentures and other loans held by the Partnership are fully collectible as through the expected sale of Clarocity, management’s expects the proceeds from the sale will be sufficient to recover all outstanding debentures and loans.*

136. These written representations do not constitute reliable audit evidence. The representation should have covered factual information that was known to management related specifically to the inputs to the valuations, such as the timing of closing of a transaction; and the current stage of due diligence.

137. Maynard misapplied the provisions of IFRS. IFRS states that only adjusting events, those that provide evidence of conditions that existed at the end of the reporting period, should be reflected in a fair value measurement. The 2017 Clarocity Memo refers to IFRS 13.11 which requires an entity to “take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.” Maynard failed to consider any other IFRS requirement to justify reflecting the intercreditor agreement that was entered into subsequent to December 31, 2017 in the measurement of the debentures as at December 31, 2017.

138. Maynard erred in the recalculation of enterprise value. Enterprise value is the total value of a company, regardless of how the company is financed. For example, consider a company with an enterprise value of $100 which is financed using $40 of debt. That company’s equity is worth $60 (enterprise value of $100 less $40 of debt). Management’s calculation of Clarocity’s enterprise value was “1 times revenues multiple plus the recovery of the development costs of $15 million incurred in the next few years.” In arriving at this calculation Maynard improperly considered untested inputs and the measurement of fair market value.

139. The technique required to measure fair value must be “appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.” Black-Scholes is not the only model for valuing warrants and similar instruments. The audit team should have considered the use of another model.

140. In determining fair value Maynard placed inappropriate reliance on the “conservative” value. Audit documentation justifies the intrinsic value method on the grounds that it is “a conservative value”. Such a claim is not permitted under IFRS

which requires certain amounts, including fair values, to be estimated where a market price is not directly observable.

141. Maynard’s planned audit response to address the risk of management override of controls consisted of obtaining an understanding of the business rationale for significant transactions outside the normal course of business or that appear unusual; testing a sample of journal entries for appropriateness and other adjustments made in the preparation of the financial statements; and examining accounting estimates for biases and consider whether the circumstances producing bias represent a risk of material misstatement due to fraud. The procedures performed did not comply with the requirements of Canadian auditing standards.

142. The accounting policy for the 2014, 2015, 2016 and 2017 Fund Audits are not in accordance with IFRS because the measurement bases used are not measures of fair value as defined in IFRS. When measuring fair value “an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date”. A market participant would take into account the future value of a warrant in determining its price. The measurement of warrants in these years may have resulted in a material understatement of the Funds’ investments.

Allegations 2(e), 3(e), 4(e), 5(e), 6(e), 7(e):

She failed to perform planned audit procedures regarding lending agreements and confirmation of terms related to amounts due to broker;

143. CAS 700.6a directs that the objectives of the auditor are to form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained.

144. CAS 700.11a requires the auditor, when forming their opinion, to conclude as to whether they obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, taking into account whether sufficient appropriate audit evidence has been obtained.

145. The Funds maintained interest and borrowing fees on its borrowings from Laurentian. Obtaining a bank confirmation of the terms of the indebtedness, including the maturity date, interest rate and security, were planned audit procedures. Maynard obtained statements of account from Laurentian as at December 31, 2014 and 2015 in order to verify the balances due to broker presented on the Insight fund's financial statements. The audit opinions were issued without the procedure being completed and the terms were not otherwise verified.

146. The audit program for cash did not identify any risks related to any assertion for the due to broker balances. Obtaining a confirmation of the terms of the indebtedness, including the maturity date, interest rate and security, were planned audit procedures. The audit opinions were issued without the procedure being completed and the terms were not otherwise verified.

C. Completion

Allegations 3(f), 4(f), 5(f), 6(f), 7(f):

She failed to ensure information related to liquidity risk was disclosed in the financial statements.

147. IAS 1.16 requires an entity whose financial statements are reported within the IFRS framework to make an explicit and unreserved statement of such compliance in the notes. An entity is prohibited from asserting that its financial statements comply with IFRSs unless they comply with all the requirements of IFRSs.

148. IAS 1.17 requires an entity to fairly present its financial statements by selecting and applying accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

149. 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.

150. 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.

151. CAS 700.12 requires the auditor to evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.

152. CAS 700.13(d) requires the auditor to evaluate whether, in view of the requirements of the applicable financial reporting framework, the information presented in the financial statements is relevant, reliable, comparable, and understandable. In making this evaluation, the auditor is required to consider whether the information that should have been included has been included, and whether such information is appropriately classified, aggregated or disaggregated, and characterized. The auditor is required to determine whether the overall presentation of the financial statements has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed. Finally, the auditor is required to determine whether the financial statements provide adequate disclosure to enable users to understand the effects of material transactions and events on the information conveyed in the financial statements.

153. IFRS 7.1(a) requires an entity to disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.

154. IFRS 7.10 directs that if an entity designates a financial liability at fair value through profit or loss it is required to present the effects of changes in that liability's credit risk in other comprehensive income and disclose four key elements.

155. IFRS 7.14(a) requires an entity to disclose the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, and the terms and conditions relating to its pledge.

156. 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.

157. IFRS 7.33(a), (b), (c) require 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 in or from the previous reporting period.

158. IFRS 7.34(a) requires an entity, for each type of risk arising from financial instruments, to disclose summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to key management personnel of the entity, for example the entity's board of directors or chief executive officer.

159. IFRS 7.B18(a) and paragraph 40(a) requires an entity to disclose a sensitivity analysis to show the effect on profit or loss and equity of reasonably possible changes in the relevant risk variable. For this purpose entities disclose the effect on profit or loss and equity at the end of the reporting period assuming that a reasonably possible change in the relevant risk variable had occurred at the end of the reporting period and had been applied to the risk exposures in existence at that date.

160. 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.

161. IFRS 7.B11E, requires an entity to disclose a maturity analysis of financial assets it holds for managing liquidity risk (eg. financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities), if that

information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.

162. IFRS 7.B11F(a) identifies other key factors an entity should disclose regarding liquidity risk, specifically whether the entity: has committed borrowing facilities (eg. commercial paper facilities) or other lines of credit (eg. stand-by credit facilities) that it can access to meet liquidity needs; has significant concentrations of liquidity risk in either its assets or its funding sources; or, has instruments that could require the posting of collateral (eg. margin calls for derivatives).

163. The objective of the IFRS financial instrument disclosure standard is to ensure entities provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance and to identify and evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

164. 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.

165. 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.”

166. Maynard permitted a description of liquidity risk for the Funds that was incomplete and misleading in that it 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. In excluding borrowings on margin Maynard failed to ensure that the Funds disclosure of exposure to liquidity risk is accurate and comprehensive.

167. Maynard permitted misleading disclosure. Maynard failed to ensure that the financial statements of the Funds provided correct information. She should have ensured full disclosure of: 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.

168. Maynard failed to ensure that the Funds disclosed a maturity analysis of non-derivative financial liabilities analysed by appropriate time bands. In such an analysis, demand liabilities are included in the earliest time band.

169. The financial statements of the Funds stated that the Funds manage liquidity risk by “investing the majority of the Fund’s assets in investment that are traded in an active market”, this is factually incorrect and misleading as the investments were not being traded in an active market.

170. Maynard permitted the creation of material misstatement by obscuring relevant information in the Funds’ financial statements by providing irrelevant disclosure. For example, the financial statements for the year ended December 31, 2017, included the statement: “The Fund may employ the use of derivatives to moderate certain risk exposures. There is no guarantee that a market will exist for some derivatives, and it is possible that the exchanges may impose limits on trading of derivatives.” However, none of the Fund’s used derivatives to manage exposure to liquidity risk in any period. Maynard should not have ensured that the financial statements of the Funds were accurate and not materially misstated due to material information being obscured by irrelevant or immaterial information.

171. Maynard failed to disclose the Funds’ change in exposure to liquidity risk. The Funds materially increased their borrowings on margin from the broker between the December 31, 2016 and 2017 year ends. For example, borrowing by SVPF increased

from $1,931,748 to $9,699,870 between those year ends. The borrowings from broker are due on demand and the increase therefore represented a material increase in liquidity risk. Maynard 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, 2017.

Allegations 2(g)(i) and (ii), 3(g)(iii), 4(g)(iii), 5(g)(iv) and (v), 6(g)(iv) and (v), 7(g)(iv) and (v):

She failed to ensure other financial statement disclosures were made, as appropriate, including:

i. **the allocation of commission revenue as a related party transaction and other relevant information; and**

172. 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.

173. IAS 24.1 and .9 outline the objective for an auditor to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties, and, provides a comprehensive definition of what constitutes a related party.

174. 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.

175. 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.

176. Procedure 8 of the cash audit program requires the auditor to complete a Financial Statement Disclosure Checklist, including an Investment Funds Disclosure Checklist, to ensure compliance with the disclosure requirements of National Instrument (“NI”) 81-102 Investment Funds (“NI 81-102”).

177. Procedure 8 on the cash audit programs were signed off as complete. However, Maynard failed to separately present on the statement of financial position “(l) liabilities for portfolio assets purchased” and disclose “4. j. the minimum and maximum amount borrowed during the period and significant terms relating thereto.”

178. Maynard 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. The financial statements included the statement: “financial instruments and/or cash positions serve as collateral for any amounts due to broker”. The financial statements did not provide disclosure to allow users to assess the significance of borrowings to the Funds’ financial position. Disclosure was unclear as to which financial instruments represented debt of the Funds or their carrying amounts. Maynard ought to have ensured the financial statement disclosures were complete, including the terms and conditions of the collateral.

179. Maynard failed to disclose the significance of borrowings to the Fund’s performance and the nature and extent of risks arising therefrom. The 2016 rate sheet states that the balances due to broker incur interest at variable rates based on prime plus a fixed margin. Maynard failed to ensure that the financial statements provided 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. The disclosure should have included the interest rate applicable to the borrowings, the term or renewal date of the borrowing agreement, or the nature of the borrowing fee expense recognized in the statements of comprehensive income.

180. Users of the financial statements need to know the Funds’ exposure to interest rate risk due to the effect on interest expense and future cash flows, including summary quantitative data about the exposure. The financial statements only disclosed the market risk effect of interest rate changes on the fair values of investments in fixed rate interest-bearing financial instruments. The Funds’ exposure to interest rate risk due to the effect on interest expense and future cash flows was not disclosed.

181. Maynard disclosed the same accounting policy for the balance due to broker for all the Funds in each year up to 2017, stating:

> *"The Partnership has a prime brokerage agreement with its broker to carry its accounts as a customer. The broker has custody of the Partnership's securities and, from time to time, cash balances which may be due from/to the broker.*
>
> *"Financial instruments and/or cash positions serve as collateral for any amounts due to broker or as collateral for any securities sold, not yet purchased or securities purchased on margin. The securities and/or cash positions also serve as collateral for potential defaults of the Partnership."*

182. No other information related to the balances due to/from broker was disclosed in any of the Funds' financial statements.

183. IFRS defines key management of an entity as those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, whether directly or indirectly. Members of key management are related to the entity that they manage, as is any person who has control or joint control of the reporting entity. The Funds, SAMI and CF are all related parties because, CF controls SAMI and SAMI controls the Funds.

184. A related party transaction is defined as a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. There is a presumption that related parties do not deal at arm's length. The discretion exercised by CF in choosing whether to have SAMI or the Funds recognize the commission revenue represents an arbitrary allocation of resources that Maynard ought to have identified as a related party transaction.

185. Maynard's failure to disclose the allocation of revenue as a related party transaction runs counter to the objective behind disclosing related party transactions, to enable financial statement users to understand the effect of transactions with related parties on the entity's financial position and performance.

186. Maynard ought to have concluded, as required by IFRS, that the disclosure of the nature of the relationship and details of the transactions would be useful information to users of the Funds' financial statements.

ii. <u>the specific valuation technique used to value warrants</u>.

187. 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.

188. CAS 540.23 requires an auditor, when testing a management made accounting estimate, to perform further audit procedures to address five elements.

189. IFRS 13.10 directs that the objective of a fair value measurement is 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.

190. 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 (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

191. A warrant is a financial instrument that gives the holder the right to purchase a share of the issuer in exchange for the payment of a fixed price, referred to as the strike price, for a defined period of time.

192. IFRS requires warrants to be recorded at fair value when received and to be adjusted to fair value at each subsequent reporting date with changes in fair value recognized in comprehensive income.

193. The fair value of a warrant at a particular date consists of intrinsic value, which is the difference between the stock price of the share at that date and the warrant's strike price; and future value, which reflects the movement in the stock price during the remaining term of the warrant.

194. The future value of a warrant, and therefore its fair value, will be higher the longer the remaining term to expiry and the more volatile the stock price, because the higher those variables are, the bigger the probability that the stock price will exceed the strike price on the expiry date of the warrant. Maynard valued the warrants using different methodologies over the period 2014 to 2016.

195. In 2014, Maynard considered the warrants held to be “sweeteners” received in transactions and to have zero value. In 2015, Maynard measured the warrants held using the Black-Scholes option pricing model. In 2016, Maynard measured options which have positive intrinsic value at fair value using the Black-Scholes model and assigned zero fair value to warrants with no intrinsic value.

196. The accounting policy applied in the financial statements Maynard audited were different each year and not in accordance with IFRS because the measurement bases used are not measures of fair value. A market participant would consider the future value of a warrant in determining its price. The measurement of warrants in these years may have resulted in a material understatement of the Funds’ investments.

197. The audit team relied on the intrinsic value method of warrant valuation on the grounds that it is “a conservative value”. Such a claim is not permitted under IFRS which requires certain amounts, including fair values, to be estimated where a market price is not directly observable.

198. The technique required to measure fair value must be “appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.” Black-Scholes is not the only model for valuing warrants and similar instruments. The audit team should have considered employing another model.

199. Maynard failed to include any documentation in the 2016 SVIF audit file to justify the measurement approach used.

Allegations 3(g)(i) and (ii), 4(g)(i) and (ii), 5(g)(i) and (ii), 6(g)(i) and (ii), 7(g)(i) and (ii):

She failed to ensure other financial statement disclosures were made, as appropriate, including:

i. **The valuation methods and processes used for determining the fair values of investments, by appropriate classes of investment.**

ii. **The sensitivity of fair values, by appropriate class of investment, to reasonably possible changes in the inputs used to determine them.**

Allegations 5(g)(iii), 6(g)(iii) and 7(g)(iii):

iii. **Information relevant to the valuation of investments;**

200. CAS 540.33b requires the auditor, in providing a overall evaluation based on audit procedures they performed in applying CAS 330 to accounting estimates, to evaluate, whether management's decisions relating to the recognition, measurement, presentation and disclosure of the accounting estimates in the financial statements are in accordance with the applicable financial reporting framework.

201. CAS 320.6 requires the auditor, in planning the audit, to make judgments about misstatements, that will be considered material, to provide a basis for determining the nature, timing and extent of risk assessment procedures; identifying and assessing the risks of material misstatement; and determining the nature, timing and extent of further audit procedures.

202. CAS 450.11 requires the auditor, when evaluating the effect of uncorrected misstatements, to determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor must assess the size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence.

203. IFRS 13.91(a) requires an entity to disclose information that helps users of its financial statements assess 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, and the valuation techniques and inputs used to develop those measurements.

204. IFRS 13.93(d) requires an entity to disclose, at a minimum, the following information for each class of assets and liabilities for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. Additionally, if there has been a change in valuation technique (eg. changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement.

205. CAS 540.26b requires the auditor, in addressing management's selection of a point estimate and related Disclosures about estimation uncertainty, to perform further audit procedures that address whether, in the context of the applicable financial reporting framework, management has taken appropriate steps to understand estimation uncertainty; and address estimation uncertainty by selecting an appropriate point estimate by developing related disclosures about estimation uncertainty.

206. CAS 540.27(a) requires the auditor, when they determine that 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 in accordance with a step process.

207. IAS 1.125 requires an entity to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of their nature, and their carrying amount as at the end of the reporting period.

208. IAS 1.129 requires an entity to present the required disclosures in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances.

209. IFRS 13.93(h)(i) requires an entity, in disclosing recurring fair value measurements categorised within Level 3 of the fair value hierarchy, to disclose for all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

210. The standards dictating relevant information disclosure for an entity's investments are comprehensive. The Fund's financial statements were drafted by SGGG as part of the services it provided. In Maynard's audit of those draft financial statements the information needs of users were ignored. Key elements of the valuation of the Clarocity debentures were either not considered or were otherwise not disclosed in the final financial statements, but ought to have been.

211. Maynard considered the effect of the impairment net of the write-up of the Clarocity investments due to the unrecorded drawdown charge and standby fee. Her conclusion was that the net amount was not material to the financial statements. This was incorrect. Maynard should have considered whether the "misstatements [were] material, individually or in aggregate," but failed to do so.

212. Maynard was also required to consider the effect of the uncorrected misstatement on disclosures in the financial statements but failed to do so. The movements in the fair value of assets classified as level 3 are required to be disclosed to reconcile the balance of those investments at the beginning of the year to the

balance at the end of the year. Had both misstatements been recorded, the Funds' financial statements would have disclosed larger losses in value.

213. Maynard permitted the release of notes to the financial statements to provide a reconciliation of investment balances. The reconciliation erroneously described the change in fair value of the investments as an "appreciation" when the actual amount was a decrease in value. Although the value was stated in brackets Maynard failed to ensure clear and correct presentation.

214. Maynard permitted the use of vague descriptions that obscured the materiality of disclosed information. The accounting policy for the valuation of investments clouded useful information by providing unnecessary and irrelevant details. For example, for valuing investments that are not traded in an active market, Maynard states: "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 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.

215. Maynard failed to disclose material inputs. The inputs to the discounted cash flow technique included unobservable inputs that are significant to the fair value measurement, such as the timing of cash flows and the discount rate. These inputs gave rise to estimation uncertainty and should have been disclosed but were not.

216. Maynard was required to disclose any factors that may result in estimation uncertainty but failed to do so. More specifically, Maynard was required to disclose: "…information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets…within the next financial year." Including, details of the assets subject to estimation uncertainty including details of "their nature, and their carrying amounts as at the end of the reporting period."

217. Satisfying this requirement typically involves disclosing the nature of the assumption or other estimation uncertainty; the sensitivity of the carrying amount of the Clarocity debentures, including a narrative description of the sensitivity, and the methods, assumptions and estimates used in measuring them; and the expected resolution of the uncertainty, such as the timing of closing the sale of Clarocity's business, and the range of reasonably possible outcomes within the next financial year. Maynard failed to provide any such disclosure.

Allegations 3(h), 4(h), 5(h), 6(h), 7(h):

She failed to correct presentation errors in the statement of financial position and the statement of cash flows due to broker balances.

218. 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.

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

220. 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.

221. Maynard 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.

222. 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."198 IFRS presumes that trade and other payables are sufficiently different from other financial liabilities199 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 of SVPF and SVYF for 2016 and 2017 and SVIF for 2017 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 transactions. The balances due to broker would be material to users of the financial statements if they were over performance materiality. Maynard failed to ensure these balances were separately presented.

223. Maynard failed to comply with National Instruments requirements. Procedure 8 of the cash audit program required Maynard 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. The requirement to separately present on the statement of financial position "(l) liabilities for portfolio assets purchased" and to disclose "4. j. the minimum and maximum amount borrowed during the period and significant terms relating thereto", in the Investment Funds Disclosure Checklist were answered "N/A" and as a result were not presented or disclosed in the financial statements.

224. Maynard misstated the Funds' cash flow statements. Cash, including negative cash balances, can be part of an entity's cash management. The balances borrowed from the broker on margin at December 31, 2016 and 2017 for SVPF and SVYF and at December 31, 2017 for SVIF, however, should not have been considered to be part of the Funds' cash management because the broker margin accounts were continually in use. The Funds' operating, or revenue generating activity is the purchase, sale and holding of investments, so Maynard 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.

225. Maynard failed to disclose the significance of borrowings to the Funds' financial position. The Funds' financial statements included the vague statement that "financial

instruments and/or cash positions serve as collateral for any amounts due to broker". The financial statements did not provide disclosure to allow users to assess the significance of borrowings to the Funds' financial position. Disclosure was unclear as to which financial instruments represented debt of the Funds or their carrying amounts. Maynard ought to have ensured the financial statement disclosures were complete, including the terms and conditions of the collateral.

C. SAMI Audit 2018

Allegation 8:

a. She failed to obtain an understanding of the legal and regulatory framework in which the entity operates and its compliance with that framework;

226. CAS 315.19 requires the auditor to perform risk assessment procedures to obtain an understanding of specific aspects of the entity and its environment, its reporting framework and how inherent risk factors affect susceptibility of assertions to misstatement and the degree to which they do so.

227. CAS 250.13 requires the auditor, in understanding the entity, 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 it is complying with that framework.

228. SAMI's compliance with securities laws and regulations fell into the category of not directly affecting the financial statements but that are fundamental to the operation of the business and therefore requiring certain audit procedures to be performed.

229. The audit memo for the audit of the opening statement of financial position as at April 30, 2013 stated that due to the simplicity of the balances and the extremely limited transactions that completion of document P34 Laws and regulations, amongst others, is "waived."

230. The audit team's understanding documented on the audit planning memoranda for the audits of December 31, 2014, 2015, 2016 and 2017 stated that SAMI needs to

file its audited financial statements with the OSC within 90 days of the year end and that the "OSC regulates all of its licensees. The documentation of the 2018 SAMI audit echoed this position.

231. Maynard failed to obtain a general understanding of SAMI and its environment. The statement on the audit planning memoranda only referred to OSC regulation but provided no detail as to what needed to be complied with or what non-compliance would look like. The audit team, therefore, did not obtain a general understanding of the legal and regulatory environment, as required, and did not understand how SAMI was complying with that framework.

232. To open a separately managed account ("SMA") with SAMI, investment clients signed a Portfolio Management Agreement and Investment Policy Statement ("PMA & IPS"). Those agreements made various representations to clients related to the manner in which their money would be invested. Representations included: diversification of investments over multiple industry sectors; that fixed income investments would be primarily in investment grade bonds; and limits on the alternative investments that may be held.

233. Although Maynard was not required to monitor SAMI's compliance with investor contracts. Maynard should have understood, however, that SAMI's failure to comply with the terms of the PMA & IPS may constitute a breach of securities law which may have implications for the continued operation of SAMI's business.

b. She failed to make required inquiries of management and those charged with governance;

234. CAS 250.15(a) requires the auditor, when considering an entity's compliance with laws and regulations, to make inquiries of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations.

235. Maynard failed to make the required inquiries. Raising questions with management to obtain a proper understanding of the regulatory environment may have led the audit team to identify non-compliance. Maynard had ample evidence to

raise a reasonable suspicion of non-compliance and failed to perform any procedures, as required, to confirm or contradict that suspicion.

c. She failed to inspect correspondence with relevant regulatory authorities; and

236. CAS 250.15 (b) requires the auditor, when considering an entities compliance with laws and regulations, to inspect correspondence, if any, with the relevant licensing or regulatory authorities.

237. There is no evidence in the audit file that indicates that this procedure was performed.

d. She failed to remain alert to the results of other audit procedures that may indicate non-compliance.

238. CAS 250.16 requires the auditor, when considering an entity's compliance with laws and regulations, 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.

239. The SVYF audit file for 2017 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 to a maximum of 20% of NAV. As at December 31, 2017, SVYF held investments in Clarocity common shares and debentures totaling $5,046,707, or 42.4% of total investments of $11,894,037; and had a balance of $4,696,650 due to broker, which represented 64.0% of the NAV of $7,338,877.

240. Having audited SAMI and the Funds financial statements for several consecutive years, should have led Maynard to suspect non-compliance given the concentration of investments in Clarocity debentures and the amount of leverage employed.

Acknowledgement

241. Maynard admits that, while acting as the engagement partner with respect to the SAMI and Funds Audits, as detailed herein, she failed to perform her 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 Rules and the Code.

Mitigating Factors

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

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

Terms of Settlement

244. Maynard and the PCC agree to the following Terms of Settlement:

a. A payment by way of fine in the amount of $75,000, payable to CPA Ontario by December 30, 2024;

b. The revocation of Maynard's CPA Ontario membership, 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 revocation of Maynard 's membership resulting from this Settlement will be published in the *Globe and Mail* newspaper with the costs of publication to be borne by Maynard in addition to any other costs required by this Settlement, payable to CPA Ontario by December 30, 2024;

d. A payment by way of costs in the amount of $40,000, payable to CPA Ontario by December 30, 2024; and

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

f. The PCC and Maynard 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.

g. Should the Discipline Committee accept this Agreement, Maynard agrees to waive her right to a full hearing, judicial review, or appeal of the matter subject to the Agreement.

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

b. The PCC and Maynard 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

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

247. 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 5th day of September 2024.

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

Susan Maynard, CPA, CA

Schedule "A"

Chartered Professional Accountants of Ontario
130 King Street West, Suite 3400
PO Box 358, Toronto ON M5X 1E1
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CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

TO: Susan L. Maynard, 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 Susan L. Maynard, CPA, CA, a member of CPA Ontario:

1. THAT the said Susan L. Maynard, in or about the period of April 4, 2013 to November 30, 2014, while engaged to perform audits of the opening statement of financial position of SAMI, a reporting issuer, as at April 30, 2013, and for the years ended July 31, 2014, July 31, 2015, July 31, 2016 and July 31, 2017, failed to perform her 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 (Code), in that:

    a. She failed to audit the opening balances as at July 31, 2013; and

    b. She failed to appropriately consider and audit the risk of material misstatement of the financial statements resulting from non-compliance with laws and regulations, other than excess working capital requirements.

2. THAT the said Susan L. Maynard, in or about the period of December 1, 2016 to March 31, 2017, while engaged to perform an audit of the financial statements of SVIF for the year ended December 31, 2016, failed to perform her professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code, in that:

    a. She failed to effectively plan the audit;

    b. She failed to appropriately consider and audit controls that addressed a significant fraud or risk area;

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

    d. She failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item “Investments at fair value through profit or loss 1,041,277”;

e. She failed to perform planned audit procedures regarding lending agreements and confirmation of terms related to amounts due to broker;

f. She failed to ensure information related to liquidity risk was disclosed in the financial statements;

g. She failed to ensure other financial statement disclosures were made, as appropriate, including:

   i. the allocation of commission revenue as a related party transaction and other relevant information; and

   ii. the specific valuation technique used to value warrants.

h. She failed to correct presentation errors in the financial statements.

3. THAT the said Susan L. Maynard, in or about the period of December 1, 2016 to March 31, 2017, while engaged to perform an audit of the financial statements of SVPF as at and for the period ended December 31, 2016, failed to perform her professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code, in that:

   a. She failed to effectively plan the audit;

   b. She failed to appropriately consider and audit controls that addressed a significant fraud or risk area;

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

   d. She failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item "Investments at fair value 19,293,889";

   e. She failed to perform planned audit procedures regarding lending agreements and confirmation of terms related to amounts due to broker;

   f. She failed to ensure information related to liquidity risk was disclosed in the financial statements;

   g. She failed to ensure other financial statement disclosures were made, as appropriate, including:

      i. the allocation of commission revenue as a related party transaction and other relevant information; and

ii. the specific valuation technique used to value warrants.

h. She failed to correct presentation errors in the financial statement of financial position and the statement of cash flows due to broker balances.

4. THAT the said Susan L. Maynard, in or about the period of December 1, 2016 to March 31, 2017, while engaged to perform an audit of the financial statements of SVYF as at and for the period ended December 31, 2016, failed to perform her professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code, in that:

   a. She failed to effectively plan the audit;

   b. She failed to appropriately consider and audit controls that addressed a significant fraud or risk area;

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

   d. She failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item “Investments at fair value 6,377,768”;

   e. She failed to perform planned audit procedures regarding lending agreements and confirmation of terms related to amounts due to broker;

   f. She failed to ensure information related to liquidity risk was disclosed in the financial statements;

   g. She failed to ensure other financial statement disclosures were made, as appropriate, including:

      i. the allocation of commission revenue as a related party transaction and other relevant information; and

      ii. the specific valuation technique used to value warrants.

   h. She failed to correct presentation errors in the financial statement of financial position and the statement of cash flows due to broker balances.

5. THAT the said Susan L. Maynard, in or about the period of December 1, 2017 to May 31, 2018, while engaged to perform an audit of the financial statements of SVIF for the year ended December 31, 2017, failed to perform her professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code, in that:

a. She failed to effectively plan the audit;

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

c. She failed to appropriately consider and audit controls that addressed a significant fraud or risk area;

d. She failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item “Investments at fair value through profit or loss 3,135,726”;

e. She failed to perform planned audit procedures regarding lending agreements and confirmation of terms related to amounts due to broker;

f. She failed to ensure information related to liquidity risk was disclosed in the financial statements;

g. She failed to ensure other financial statement disclosures were made, as appropriate, including:

   i. Information relevant to the valuation of investments;

   ii. the specific valuation technique used to value warrants; and

   iii. the allocation of commission revenue as a related party transaction and other relevant information;

h. She failed to correct presentation errors in the financial statement of financial position and the statement of cash flows due to broker balances; and

i. She failed to correct material misstatements of SVIF’s investments prior to issuing an unqualified opinion on the financial statements.

6. THAT the said Susan L. Maynard, in or about the period of December 1, 2017 to May 31, 2018, while engaged to perform an audit of the financial statements of SVPF for the year ended December 31, 2017, failed to perform her professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code, in that:

   a. She failed to effectively plan the audit;

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

c. She failed to appropriately consider and audit controls that addressed a significant fraud or risk area;

d. She failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item “Investments at fair value 30,712,505”;

e. She failed to perform planned audit procedures regarding lending agreements and confirmation of terms related to amounts due to broker;

f. She failed to ensure information related to liquidity risk was disclosed in the financial statements;

g. She failed to ensure other financial statement disclosures were made, as appropriate, including:

   i. information relevant to the valuation of investments;

   ii. the specific valuation technique used to value warrants; and

   iii. the allocation of commission revenue as a related party transaction and other relevant information.

h. She failed to correct presentation errors in the financial statement of financial position and the statement of cash flows due to broker balances; and

i. She failed to correct material misstatements of SVPF’s investments prior to issuing an unqualified opinion on the financial statements.

7. THAT the said Susan L. Maynard, in or about the period of December 1, 2017 to May 31, 2018, while engaged to perform an audit of the financial statements of SVYF for the year ended December 31, 2017, failed to perform her professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code, in that:

a. She failed to effectively plan the audit;

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

c. She failed to appropriately consider and audit controls that addressed a significant fraud or risk area;

d. She failed to obtain sufficient appropriate audit evidence to support the Statement of Financial Position item “Investments at fair value 11,894,037”;

e. She failed to perform planned audit procedures regarding lending agreements and confirmation of terms related to amounts due to broker;

f. She failed to ensure information related to liquidity risk was disclosed in the financial statements;

g. She failed to ensure other financial statement disclosures were made, as appropriate, including:

   i. information relevant to the valuation of investments;

   ii. the specific valuation technique used to value warrants; and

   iii. the allocation of commission revenue as a related party transaction and other relevant information.

h. She failed to correct presentation errors in the financial statement of financial position and the statement of cash flows due to broker balances; and

i. She failed to correct material misstatements of SVYF's investments prior to issuing an unqualified opinion on the financial statements.

8. THAT the said Susan L. Maynard, in or about the period of July 1, 2018 to October 31, 2018, while engaged to perform an audit of the financial statements of SAMI for the year ended July 31, 2018, failed to perform her professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code, in that:

   a. She failed to obtain an understanding of the legal and regulatory framework in which the entity operates and its compliance with that framework;

   b. She failed to make required inquiries of management and those charged with governance;

   c. She failed to inspect correspondence with relevant regulatory authorities; and

   d. She failed to remain alert to the results of other audit procedures that may indicate non-compliance.

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

____

Janice Deganis, FCPA, FCA, CMA VICE CHAIR
PROFESSIONAL CONDUCT COMMITTEE

Private and Confidential