CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO

THE CHARTERED PROFESSIONAL ACCOUNTANTS OF ONTARIO ACT, 2017

IN THE MATTER OF: ALLEGATIONS OF PROFESSIONAL MISCONDUCT AGAINST **MARIO SGRO, CPA, CA**, BEFORE THE DISCIPLINE COMMITTEE

SETTLEMENT AGREEMENT

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

Introduction

1. The Professional Conduct Committee (PCC) approved draft Allegations of Professional Misconduct (Allegations) against Mario Sgro, CPA, CA (Sgro or the Member), 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 Canada Handbook (CPAH) sections are found in the Standards Brief.

2. The draft Allegations **[Doc 1]** pertain to circumstances arising from Sgro's public accounting services on behalf of two clients, specifically:

    a. Review of the financial statements of "TL", for the year ended September 30, 2022; **[Doc 2]**
    b. Review of the financial statements of "TL", for the year ended September 30, 2023; **[Doc 3]**
    c. Review of the financial statements of "LGDS", for the year ended July 31, 2023. **[Doc 4]**

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

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

Background

4. Sgro obtained his legacy Chartered Accountant (CA) designation on July 30, 1992 and Chartered Professional Accountant (CPA) designation in late 2012 and currently holds a Public Accounting Licence (PAL).

5. Sgro began his career as a student at Goldban Goldberg in 1989 and held other positions at various small accounting firms until he joined the partnership with Mario Venerus, CPA, CA in 2006. Mario Venerus retired in 2022 and Sgro has continued his practice, without partners, in the firm name of VS LLP (the Firm).

6. The VS LLP roster currently consists of one senior accountant (without an accounting designation), two CPA, CAs, one accounting technician/bookkeeper and one administrative staff. In 2023, VS LLP had two review clients and the remainder were compilation engagements (approximately 650) and personal income tax and bookkeeping services.

The Complaint

7. On April 4, 2024, the Practice Inspection Committee (PIC) advised the Standards Enforcement (SE) branch of CPA Ontario that following a reinspection of the Firm, it was determined that the failure to meet professional standards was sufficiently serious to reflect adversely upon Sgro’s professional competence because the actions taken by Sgro did not demonstrate that he had implemented the Action Plan from the previous

reinspection. The PIC concluded that the Firm had sufficient time to rectify pervasive reportable deficiencies for the second reinspection and failed to do so.

8. The inspection history of Sgro's practice is as follows:

YEAR	TYPE	INSPECTION DATE	FINDING
2021	Inspection	June 28, 2021	Full reinspection
2022	Reinspection	October 17, 2022	Full reinspection
2023	Reinspection	November 1, 2023	Referral to the PCC

9. On June 28, 2024, the PCC appointed Jennifer Fisher, FCPA, FCA to investigate Sgro's professional conduct, standards of practice and the circumstances surrounding the complaint.

10. As part of her investigation, Ms. Fisher reviewed Sgro's conduct and standards of practice in relation to three review engagements. She released her report on August 27, 2024.

11. Sgro and the PCC agree that Sgro failed to perform his professional services in accordance with the generally accepted standards of practice of the profession as described below; and, Sgro admits that the agreed facts set out below accurately particularize the manner in which he failed to do so.

Generally Accepted Standards for Review Engagements

12. The standards applicable to reviews are described by generally accepted standards for review engagements. During 2022-2023, these standards were published in the Assurance section of the CPA Canada Handbook (CPAH).

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

14. To obtain reasonable assurance, the Canadian Standard on Review Engagements CSRE 2400 – Engagements to review historical financial statements, sets out the standard to be met, requirements to be fulfilled and steps to be taken. They include performing primarily inquiry and analytical procedures, obtaining sufficient appropriate evidence while exercising professional skepticism.

15. Further, the generally accepted standard for review engagements requires practitioners to plan and perform the review engagement with professional skepticism, recognizing that circumstances may exist that cause the financial statements to be materially misstated. Professional skepticism requires a questioning attitude which is alert to conditions which may indicate a possible misstatement due to error or fraud. Professional skepticism requires the practitioner to conduct a critical assessment of the evidence.

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

Failure to Maintain Professional Standards

17. Sgro and the PCC agree that Sgro failed to perform his professional services in accordance with generally accepted standards of practice of the profession, contrary to Rule 206.1 of the Code, as described below.

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

The Draft Allegations

Allegation 1: Rule 206.1, Review of TL for the Year-End September 30, 2022

19. TL is a general contractor and a project management construction company, with accredited access to projects at the Calgary and Toronto Pearson Airports. TL requires quarterly reports for insurance bonding purposes. The users of the financial statements are the shareholders, Canada Revenue Agency, and the insurance bonding company. TL has been a review engagement client of VS LLP since 2015.
20. The Independent Practitioner’s Review Engagement Report was dated October 19, 2022.

Allegation: THAT the said Mario Sgro, in or about the period of September 1, 2022 to February 28, 2023, while engaged to perform the review of the financial statements of "TL", for the year ended September 30, 2022, failed to perform his professional services in accordance with the generally accepted standards of practice of the profession, contrary to Rule 206.1 of the CPA Ontario Code of Professional Conduct, in that:

a. **He failed to ensure proper disclosure relating to commitments for future operating lease payments for the Statement of Loss and Retained Earnings item "Occupancy Costs 148,376";**

21. The CPAH 3065.77 requires that the future minimum lease payments, in the aggregate and for each of the five succeeding years under operating leases is to be disclosed in the financial statements. Sgro failed to ensure the required disclosure of future lease payments in the financial statements.

b. **He failed to ensure proper disclosure of a description of the liability, the interest rate, the maturity date and the five-year principal repayment requirements for the Balance Sheet item "Long term Debt 90,421";**

22. CPAH 3856.43 requires that for long-term debt, the enterprise shall disclose the interest rate, the maturity date and the description of the liability; in addition to the aggregate amount of payments required in each of the next five years to meet repayment provision of financial liabilities. Sgro failed to ensure the required disclosure of this information in the financial statements.

c. **He failed to document his understanding of the entity and its environment, and the applicable reporting framework to identify areas in the financial statements where material misstatements were like to arise;**

23. CSRE 2400.43 and 2400.44 require the practitioner to obtain an understanding of the entity and its environment, and the applicable financial reporting framework, to identify areas in the financial statements where material misstatements are likely to arise and thereby provide a basis for designing procedures to address those areas. The practitioner's understanding shall include: relevant industry, regulatory and other external factors including the applicable financial reporting framework; the nature of the entity; the entity's accounting systems and account records; and the entity's selection and application of accounting policies.
24. The working papers did not document Sgro's understanding of the following:

a. Entity’s objectives and strategies;

b. The way the entity is structured and how it is financed;

c. The entity’s ownership and governance structure;

d. Sales cut-off;

e. Accounts payable cut-off;

f. Payroll; and

g. Purchases, payables and payments.

d. He failed to identify areas in the financial statements where material misstatements are likely to arise;

25. CSRE 2400.45 requires that based on the practitioner’s understanding, the practitioner shall identify areas in the financial statements where material misstatements are likely to arise. Sgro’s working papers failed to reflect a consideration of identified areas where material misstatements are likely to arise.

e. He failed to obtain sufficient appropriate evidence to support the Balance Sheet item “Accounts receivable 1,798,635”;

f. He failed to obtain sufficient appropriate evidence to support the Statement of Loss and Retained Earnings item “Salaries and wages 658,419”;

g. He failed to obtain sufficient appropriate evidence to support the Balance Sheet item “Accounts payable and accrued liabilities 926,208”;

26. Per CSRE 2400.46, in obtaining sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole, the practitioner shall design and perform inquiry and analytical procedures:

a) To address all material items in the financial statements, including disclosures; and

b) To focus on addressing areas in the financial statements where material misstatements are likely to arise.

27. Sgro’s working papers failed to provide evidence support for the accounts receivable, payroll (salaries and wages) and accounts payable areas of the financial statements.

h. He failed to make inquiries of management as required;

28. CSRE 2400.47 requires the practitioner to make certain inquiries of management to obtain information and to assess management’s intentions for business processes and

operations. Evaluating the responses provided by management is integral to the inquiry process.

29. Sgro failed to disclose inquiries of management as required relating to non-monetary transactions; material commitments, contractual obligations or contingencies; management's assessment of the entity's ability to continue as a going concern; subsequent events; existence of any actual, suspected or alleged fraud; and related party transactions in the working papers.

i. He failed to document the adjustments made to the journal entries;

30. CSRE 2400.59 requires the practitioner to communicate with the appropriate level of management on a timely basis, all misstatements accumulated during the review. The practitioner shall request management to correct those misstatements.

31. TL's letter of representation included an acknowledgement that "we have reviewed approved and recorded all of the following: adjusting journal entries you prepared or changed". Sgro failed to document the specifics of the adjustments made and approval of same in the working papers.

j. He failed to include a reference to uncorrected misstatements in the client's letter of representation and assess whether those misstatements were immaterial individually or in the aggregate to the financial statements as a whole;

32. CSRE 2400.70 requires the practitioner to request a written representation of management about whether they believe the effects of uncorrected misstatements are immaterial, individually or in the aggregate, to the financial statements as a whole. A summary of such items shall be included in or attached to the written representation.

33. Sgro did not include reference to uncorrected misstatements in TL's letter of representation for 2022.

k. He failed to date the Independent Practitioner's Review Engagement Report no earlier than the date on which he had obtained sufficient appropriate evidence as the basis for his conclusion on the financial statements;

34. CSRE 2400.103, requires the practitioner to date the report no earlier than the date on which the practitioner has obtained sufficient appropriate evidence as the basis for the practitioner's conclusion on the financial statements.

35. The Independent Practitioner's Review Engagement Report was dated October 19, 2022. The CaseWare file to support the engagement was created on December 7, 2022 and most of the working papers were prepared in January and February 2023. Sgro evidenced his review of individual working papers on February 23, 2023 and October 31, 2023. During the investigation interviews, Sgro advised that the financial statements and attached Independent Practitioner's Review Engagement Report were finalized by a staff member who used an outdated version. The Independent Practitioner's Review Engagement Report was dated incorrectly and should have been dated around February 23, 2023, when Sgro completed the majority of his review of the working papers.

l. He failed to ensure proper disclosure of the required information related to income tax expense and the amount of the income tax loss carry forward in Note 7 to the financial statements;

36. CPAH 3465.88 requires that when an enterprise applies the taxes payable method of accounting for income taxes, the financial statements shall disclose: a reconciliation of the income tax rate or expense related to income or loss for the period before discontinued operations to the statutory income tax rate or the dollar amount that would result from its application, including the nature and amount of each significant reconciling item; and the amount of unused income tax losses carried forward and unused income tax credits.

37. The note 7 to the financial statements reported an effective tax expense of $57,835, instead of a balance of $nil. Sgro failed to ensure the required disclosure in the financial statements of the amount of unused income tax loss carry forward due to the loss for the year.

m. He failed to sufficiently document inquiry and analytical procedures to support the Balance Sheet item "Due from related parties (Note 5) 1,752,135";

n. He failed to sufficiently document inquiry and analytical procedures to support the Balance Sheet item "Income taxes payable nil";

o. He failed to design and perform inquiry and analytical procedures to support the COVID bank loan included in Balance sheet item "Short term debt 19,920";

p. He failed to design and perform inquiry and analytical procedures to support the Balance sheet item "Long term debt 90,421"; and

q. He failed to design and perform inquiry and analytical procedures to support the Statement of Loss and Retained Earnings items "Revenues 4,148,917" and "Sub-contracts 2,259,479".

38. Per CSRE 2400.104, the practitioner shall document the following aspects of the engagement in a timely manner, sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand:
    a. The nature, timing and extent of the procedures performed to comply with this CSRE and applicable legal and regulatory requirements;
    b. Results obtained from the procedures, and the practitioner's conclusions formed on the basis of those results; and
    c. Significant matters arising during the engagement, the practitioner's conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

39. The working papers did not provide such documentation for the following:

    a) The Balance Sheet reports a balance Due from Related Parties of $1,752,135. This amount agrees with the lead sheet[1] for the Loan to IHold Inc. for this amount. The referenced support for this balance is a copy of the lead sheet[2] from the working paper of the IHold Inc. compilation engagement file, which reports a different amount owing to TL, in the amount of $1,652,254. Sgro acknowledged the difference and advised it was a timing difference and required an update to the working papers for IHold Inc.; (**allegation m.**)
    b) The Balance Sheet reports a $nil balance for Income taxes payable. The excel document[3] to support the balance is for a previous year, not for the 2022 year end. In

[1] #234.1 - Torcon 2022 Loan from related party
[2] #242.1 - Torcon 2022 Intercompany liability for IHold Inc. due to related corporation
[3] #239.1 - Torcon 2022 Income taxes payable continuity

addition, there is no support in the working papers for the detail reported as the reconciliation of the income tax expense, included in note 7 to the financial statements; (**allegation n.**)

c) The Balance Sheet reports Short term debt of $19,920 plus Long term debt of $90,421. As reported on the lead sheet[4] for Loans payable this debt is comprised of a BDC loan of $70,341 plus a COVID bank loan of $40,000. There is no support for the balance for the COVID bank loan which, as a CEBA loan, has certain forgivable loan features. Sgro failed to report this information in the financial statements. In addition, the BDC loan confirmation[5] that is included in the working papers reports a balance owing of $64,740. There is no evidence that the difference of $5,601 was identified or assessed by Sgro; (**allegation o.**)

d) The Review completion checklist[6] included a response to the question related to going concern "have appropriate disclosures been made in the F/S in accordance with the applicable financial reporting framework" of "Yes COVID related note". Sgro did not provide the disclosure in the financial statements; (**allegation p.**); and

e) The working paper labelled "Gross Margin Analysis"[7] included a seven-year comparison of the calculation of gross margin – the excess of sales over material and supplies and subcontracts expense. The only analysis was a numerical calculation of the gross margin percentage. In 2022 the gross margin dropped to 23% from 28% for 2021 (which was an increase from 2020 of 20%). Sgro failed to reflect any analysis of the gross margin drop in the working papers, which in dollars would be in excess of $200,000. (**allegation q.**)

Allegation 2: Rule 206.1, Review of TL for the Year-End September 30, 2023

40. The Independent Practitioner's Review Engagement Report was dated March 11, 2024.

41. The engagement was prepared by SG and BV and reviewed by Sgro, as the engagement partner.

[4] #236.1 - Torcon 2022 Loans payable lead sheet
[5] #128.1 - Torcon 2022 BDC loan confirmation
[6] #240.1 - Torcon 2022 Completion checklist
[7] #237.1 - Torcon 2022 gross margin analysis

42. This engagement was completed after the Practice Inspection in November 2023 and after the PI Action Plan was prepared by Sgro to address the reportable deficiencies in the TL 2022 engagement.

Allegation 2: THAT the said Mario Sgro, in or about the period of September 1, 2023 to March 31, 2024, while engaged to perform the review of the financial statements of "TL", for the year ended September 30, 2023, failed to perform his professional services in accordance with the generally accepted standards of practice of the profession, contrary to Rule 206.1 of the CPA Ontario Code of Professional Conduct, in that:

a. He failed to ensure proper disclosure of a description of the liability, the interest rate, the maturity date and the five-year principal repayment requirements to support "Long term Debt 64,900;

43. CPAH 3856.43 requires that for long-term debt, the enterprise shall disclose the interest rate, the maturity date and the description of the liability.

44. This was a reportable deficiency noted in the PI for the 2022 review engagement.[8] Sgro failed to ensure the required disclosure of this information in the financial statements.

b. He failed to ensure a correct reconciliation of the income tax expense in Note 8 to the financial statements;

45. CPAH 3465.88 requires that when an enterprise applies the taxes payable method of accounting for income taxes, the financial statements shall disclose: a reconciliation of the income tax rate or expense related to income or loss for the period before discontinued operations to the statutory income tax rate or the dollar amount that would result from its application, including the nature and amount of each significant reconciling item.

46. Note 8 to the financial statements[9] provided a reconciliation of the income tax expense, which included an adjustment for decrease resulting from non-deductible expenses of $3,566. Non-deductible expenses would result in an increase in the income tax expense, not a decrease. The decrease is due to the previous year's income tax loss carry forward. The comparative amounts for the previous year showed as $nil but should have instead

[8] #9.1 - PI Reportable Deficiencies FS2
[9] #162.17 - Torcon 2022 financial statements, note 8 [Doc 2]

reflected the effective income tax recovery offset by the tax effect of the loss carry forward.

c. He failed to evidence through the working papers that the determination of materiality was conducted at the commencement of the review engagement as part of the planning of the engagement;

47. CSRE 2400.41 requires the practitioner to determine materiality and apply this in designing the procedures in evaluating the results obtained from those procedures.

48. From the CaseWare History Report, it is noted that there were 138 entries that Sgro completed on March 11, 2024 – the first date that there was activity by Sgro.[10] This is also the date of the Independent Practitioner's Review Engagement Report. Documents related to the planning of the engagement such as Client engagement acceptance, the Knowledge of Business checklist, and Knowledge of Business Form and Materiality, are all marked as reviewed by on March 11, 2024, not at the initial stages of the engagement.

49. Sgro failed to conduct the determination of materiality as part of the planning for the engagement at the commencement of the review engagement in the working papers.

d. He failed to identify areas in the financial statements where material misstatements were likely to arise;

50. CSRE 2400.45 requires that based on the practitioner's understanding, the practitioner shall identify areas in the financial statements where material misstatements are likely to arise. Sgro failed to reflect consideration of identified areas where material misstatements are likely to arise in the working papers.

e. He failed to sufficiently document inquiry and analytical procedures to support the Balance Sheet item "Accounts receivable 4,315,967";

f. He failed to sufficiently document inquiry and analytical procedures to support the Balance Sheet item "Deferred income 508,225";

g. He failed to sufficiently document inquiry and analytical procedures to support the Balance Sheet item "Income taxes payable 49,061";

[10] #263.1 - Torcon 2023 CaseWare document access history

51. CSRE 2400.104 requires that the practitioner shall document the following aspects of the engagement in a timely manner, sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand:

a) The nature, timing and extent of the procedures performed to comply with this CSRE and applicable legal and regulatory requirements;

b) Results obtained from the procedures, and the practitioner's conclusions formed on the basis of those results; and

c) Significant matters arising during the engagement, the practitioner's conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

52. The working papers did not provide such documentation for the following:

a) The Balance Sheet reports a balance for Accounts receivable in the amount of $4,315, 967 (compared to $1,798,635 for the 2022 year end). The main components of the balance are:

   i. Accounts receivable – trade $3,711,518. The aged listing agrees in total to this balance and has an immaterial balance ($4,936) over 90 days; and

   ii. Holdbacks receivable $603,024 – this was a new balance for TL, based on new multi-year projects commenced after COVID restrictions were lifted. The amount of the holdbacks was calculated by Sgro's staff using the client provided report.[11] Sgro advised that this working paper was provided to the insurance company with no communication as to what review procedures had been completed for the amounts reported. (**allegation e.**)

b) The Balance Sheet reported a balance for Deferred income amounting to $508,225, with no comparable amounts for 2022. Per Sgro, this was new for the multi-year projects. The amount reported was referenced to the same working paper that was used to support the holdbacks. The working paper[12] did not evidence how the review was conducted for the amount for Deferred income. The amount for Deferred income was an adjustment made by Sgro. (**allegation f.**)

[11] #174.1 - Torcon 2023 Schedule of holdbacks and deferred income
[12] #174.1 - Torcon 2023 Schedule of Holdbacks and Deferred Income

c) Income Taxes payable of $49,061 was supported by an excel document “income taxes – continuity” [13], which had $nil reported for all activity. Per Sgro, this document was not updated once the corporate tax return was prepared. (**allegation g.**)

h. He failed to make inquiries of management for certain information as required;

53. CSRE 2400.47 requires the practitioner to make certain inquiries of management to obtain information and to assess management’s intentions for business processes and operations. Evaluating the responses provided by management is integral to the inquiry process.

54. Sgro failed to disclose inquiries of management as required relating to non-monetary transactions; material commitments, contractual obligations or contingencies; management’s assessment of the entity’s ability to continue as a going concern; subsequent events; existence of any actual, suspected or alleged fraud; and related party transactions.

i. He failed to adequately identify the basis for the amount selected for materiality.

55. CSRE 2400.41, requires the practitioner to determine materiality for the financial statements as a whole and apply this materiality in designing the procedures in evaluating the results obtained from those procedures. Sgro did not adequately identify the basis for materiality and how the amount was determined.[14]

Allegation 3: Rule 206.1, Review of LGDS for the Year-End July 31, 2023

56. LGDS’s activity is courier and logistic services.

57. The Independent Practitioner’s Review Engagement Report was dated January 30, 2024.

[13] #137.1 - Torcon 2023 Income tax continuity schedule
[14] #258.1 - Torcon 2023 Form 2-10 Materiality

58. The working papers were prepared by SG and BV. Sgro recorded his review of the individual working papers on January 30, 2024, as the engagement partner.

Allegation 3: THAT the said Mario Sgro, in or about the period of July 1, 2023 to January 30, 2024, while engaged to perform the review of the financial statements of "LGDS", for the year ended July 31, 2023, failed to perform his professional services in accordance with the generally accepted standards of practice of the profession, contrary to Rule 206.1 of the CPA Ontario Code of Professional Conduct, in that:

a. He failed to ensure proper disclosure of the accounting policy adopted in determining the composition of cash and cash equivalents for the Statement of Cash Flows;

59. CPAH 1540.43, requires an enterprise to disclose the policy that it adopts in determining the composition of cash and cash equivalents and present a reconciliation of the amounts presented in its cash flow statement with the equivalent items presented in the balance sheet.

60. Sgro failed to ensure the disclosure of this accounting policy or the reconciliation in the notes to the financial statements.

b. He failed to ensure proper disclosure of the nature of the relationship between LGDS and the related parties in Balance Sheet item "Due to related parties – non interest bearing and due on demand 362,058";

61. CPAH 3840.51, requires an enterprise to disclose a description of the relationship between the transacting parties for transactions with related parties.

62. The Balance Sheet reported a balance due to related parties of $362,058 (compared to $174,476 as at the 2022-year end), however Sgro failed to ensure the disclosure of the nature of the relationship between LGDS and the "related parties".

c. He failed to ensure proper disclosure of related party transactions;

63. CPAH 3840.51, requires an enterprise to disclose a description of the transaction, the recognized amount of the transactions classified by financial statement category and the measurement basis used.

64. During an interview with the Investigator on August 1, 2024, Sgro advised that LGDS rented space from a related party during the year. Sgro failed to ensure the disclosure of this information in the financial statements.

d. He failed to document the determination of materiality;

65. CSRE 2400.41 requires the practitioner to determine materiality for the financial statements as a whole and apply this materiality in designing the procedures and in evaluating the results obtained from those procedures. CSRE 2400.A70 to 2400.A79 provides guidance on considerations to apply to the determination of the amount of materiality.

66. Sgro identified an amount for materiality in the working paper to support the determination for materiality for the previous year but failed to provide this for the current year as preliminary materiality.[15]

**e. He failed to design and perform inquiry and analytical procedures to support the Balance Sheet item "Accounts receivable 397,883"; **

f. He failed to design and perform inquiry and analytical procedures to support the Statement of Income and Retained Earnings item "Cost of sales 2,218,488";

g. He failed to design and perform inquiry and analytical procedures to support the Statement of Income and Retained Earnings item "Salaries and wages 695,671".

67. CSRE 2400.104 requires the practitioner to document the following aspects of the engagement in a timely manner, sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand:
    a. The nature, timing and extent of the procedures performed to comply with this CSRE and applicable legal and regulatory requirements;
    b. Results obtained from the procedures, and the practitioner's conclusions formed on the basis of those results; and
    c. Significant matters arising during the engagement, the practitioner's conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

[15] #246.1 - Little Guys 2023 Materiality determination

68. The working papers did not provide such documentation for the following:

a. The Balance Sheet reported an amount of $397,883 for Accounts receivable. The notes on the comparative lead sheet[16] reported that: "*Note client specific software cannot reprint a/r at July 31, 2023. Client forgot to print out at year-end*." In addition, is the note: "*The sales are driven by separate software for customer deliveries. The data is then on a nightly basis exchanged within Quickbooks desktop. The procedures have not changed in 15 years."* The lead sheet referenced a working paper C.2 which is a 48-page aged Accounts receivable listing[17] that totals $465,650. The report was dated January 18, 2024. Sgro failed to address how this report provided sufficient evidence as the basis for the conclusion on the accounts receivable amount reported as of July 31, 2023 (almost six months prior) in the aged listing. Sgro incompletely answered the Accounts receivable, trade and other – review procedures checklist.[18] Sgro failed to address Impairment and cut off. (**allegation e.**)

b. The Statement of Income and Retained Earnings reports Cost of Sales totaling $2,218,488. The working papers to support this amount included a comparative lead sheet[19] and a checklist[20] of review procedures and conclusions:

    i. The lead sheet reported that: "*Balance is plausible. Gross margin consistent – see working paper 30.1*";

    ii. The gross margin analysis working paper[21] reported revenue, cost of sales, margin (equal to the excess of revenue over cost of sales) and margin % (equal to margin divided by revenue). The working paper showed this calculation for twenty years. The margin % for 2023 was 44.72%, compared to 36.72% for 2022. The margin % for 2023 was the highest calculated percentage for the twenty years reported. Sgro failed to analyze and determine this material increase in the gross margin as to the explanation for the increase; and

[16] #251.1 - Little Guys 2023 Accounts receivables – trade lead sheet
[17] #252.1 - Little Guys 2023 Accounts receivable aged listing
[18] #317.1 - Little Guys 2023 C.5 Accounts receivable – review procedures checklist
[19] #293.1 - Little Guys 2023 Cost of Sales lead sheet
[20] #298.1 - Little Guys 2023 W/P 30.0 Cost of sales – review procedures
[21] #247.1 - Little Guys 2023 W/P 30.1 Gross Margin Analysis

iii. Sgro had limited responses in the checklist to the procedures identified to be completed for support for the amount reported for Cost of Sales. (**allegation f.**)

c. The Statement of Income and Retained Earnings included an amount for Salaries and Wages expense of $695,671. The support for this amount was a comparative lead sheet[22] with notations that were not applicable to the current year. Sgro advised that there are three payrolls – the drivers; the brokers; and office staff and management. This working paper related to the office staff and management and did not address the much larger amounts for drivers and brokers salaries. The drivers and brokers salaries were part of Cost of Sales. The comments for the Cost of Sales on the lead sheet was "Balance is plausible. Gross margin consistent – see working paper 30.1". (as discussed in the previous paragraph). Sgro advised that all payroll is done by Ceridian [payroll service] and that he was relying on that service for accuracy of the salaries expense and that he "did some accruals for payroll". The lead sheet for accounts payable[23] included an amount for $230,000 marked as "Salaries – 2023" with no details and payroll liabilities for source deductions payable, vacation payable and payroll clearing account. These three items were referenced in total to a copy of the CRA statement for payroll source deductions. There is no evidence of support for the vacation payable or payroll clearing account. (**allegation g.**)

Acknowledgement

69. Sgro admits that while acting as the engagement partner for the following engagements:
    a. Review of the financial statements of "TL", for the year ended September 30, 2022; **[Doc 2]**
    b. Review of the financial statements of "TL", for the year ended September 30, 2023; **[Doc 3]**
    c. Review of the financial statements of "LGDS", for the year ended July 31, 2023. **[Doc 4]**

he failed to perform his professional services in accordance with generally accepted

[22] #250.1 - Little Guys 2023 W/P Salaries and wages
[23] #299.1 - Little Guys 2023 Accounts payable lead sheet

standards of practice of the profession in the manner described above, contrary to Rule 206.1 of the Code

Mitigating Factors

70. Sgro has been cooperative throughout the CPA Ontario investigation. In making the admissions herein, Sgro has saved the PCC and the Discipline Committee the time and expense of a lengthy hearing.

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

Terms of Settlement

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

    a. Sgro shall pay a fine of $10,000 to CPA Ontario;

    b. Sgro's practice shall be restricted, prohibiting him from performing audit and review assurance engagements;

    c. Notice of the terms of this Settlement is to be published in the manner set out in CPA Ontario Regulation 6-2 sections 45, 48, 50 and 52 with notice to be given to all members of CPA Ontario, and all provincial CPA Bodies, the Public Accounting Standards Committee and shall be made available to the public;

    d. Notice of Sgro's practice restriction shall be published in the Globe and Mail published in the Greater Toronto Area, with all costs borne by Sgro;

    e. Sgro shall pay costs in the amount of $18,000 to CPA Ontario;

    f. Sgro will be allowed 24 months from the time the Discipline Committee accepts this Agreement to pay the fine and costs referred to in paragraphs 72(a) and (e); and,

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

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

74. The PCC and Sgro expressly authorize and consent to CPA Ontario providing notice of the terms of this Agreement to all CPA Ontario members, all provincial CPA Bodies and the Public Accounting Standards Committee.

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

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

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

   b. The PCC and Sgro shall be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing on the merits of the allegations, or negotiating a new settlement agreement, unaffected by this Agreement or the settlement negotiations.

Disclosure of Agreement and Independent Legal Advice

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

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

80. Sgro agrees and confirms that he has received legal advice from his legal counsel. As a result, Sgro agrees and confirms that he fully understands the effect of this Agreement and consequences of signing this Agreement.

All of which is agreed to for the purpose of this proceeding alone this 20th day of March, 2025.

Lindsay Bandini, J.D.
On behalf of
The Professional Conduct Committee

Mario Sgro, CPA, CA
on his own behalf