

# Can Managers Rely On The Work Of CPAs?

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## Abstract

*Managers often rely on the work of independent CPAs as they make critical business decisions. To have confidence in the workproducts of CPAs, managers should be familiar with the regulation of the profession. Besides entrance requirements (examination and experience) and continuing professional education classes, CPAs are subject to disciplinary actions. The process of taking disciplinary process for CPAs in one US jurisdiction was first studied and documented. Then, ten years of disciplinary actions taken in the jurisdiction were researched. The results show that the State Board of Accountancy approaches a complaint against a CPA seriously. The Board investigates each individual complaint and molds the resulting disciplinary action to the specific case. In 99% of the cases, the CPA's license was revoked, suspended, placed on probation, or censured. In the remaining cases, conditions to be complied with were handed down. Several CPAs were subject to more than one impact to the license. While the cases spanned a variety of issues, for 88% of the cases, the focus was the CPA's failure to renew the license. In the small percentage of cases addressing more serious issues, the issue was peer review, a conviction/guilty plea/civil judgment, or some other violation of the state's accountancy law. Most of the actions, 98%, were against individual CPAs, rather than CPA firms. The findings provide assurance to managers that the workproducts of CPAs can be relied upon in managers' critical decision-making.*

## Introduction

*M*anagers at all levels and across many areas of an entity rely on the work of the outside accountant. The independent certified public accountant (CPA) may be engaged to provide services such as audit, tax compliance, tax planning, and consulting. In order to have confidence in the CPA's work, managers must be assured that the CPA and the associated public accounting firm are competent and produce reliable work products.

*Readers with comments or questions are encouraged to contact the author via email.*

The public accounting profession utilizes a number of measures to assure that as practitioners enter the profession, they possess at least a minimum level of competency and that, as they progress through their careers, they keep current. These measures include entrance requirements (an examination and experience criteria), continuing education regulations, and a process for disciplinary actions. Managers in many companies and governmental units are familiar with, or at least aware of, the rigorous two-day exam given to CPA candidates. They may also have heard of the experience and the continuing professional education (CPE) requirements.<sup>1</sup>

However, the disciplinary process may be unfamiliar to managers.

To have confidence in the public accounting profession and a CPA's work product, managers should have an understanding of the process the profession goes through to police itself. This article explores and explains the disciplinary process in one U.S. jurisdiction and then goes on to analyze the actions taken against CPAs, CPA candidates, and public accounting firms in that jurisdiction.

### **Methodology**

To study the disciplinary process of actions taken against CPAs,<sup>2</sup> the process of bringing, investigating, and eventually closing such actions was first studied. After gaining an understanding of the process, publicly-available information regarding actions taken in one jurisdiction over a ten-year period was scrutinized, tabulated, and evaluated. Specifically, the public disclosures regarding disciplinary actions taken against CPAs by a State Board of Accountancy<sup>3</sup> were examined and information on disciplinary actions was extracted.

For each case in which a disciplinary action was ultimately taken, the Board newsletter provided a brief description. In a few cases, the description of a disciplinary action from the newsletter was supplemented with further information from the minutes<sup>4</sup> of the applicable Board meeting. The relevant issue(s) was normally revealed in the newsletter, as well as the disciplinary action rendered. Also, the form of the Board's order and the name of the individual and/or firm disciplined were given.

### **The Process Of A Disciplinary Action**

A disciplinary action against a CPA or firm may be initiated in a number of ways, may proceed along different courses, and may be resolved by various methods. An overview of the process used in the jurisdiction studied, and typical of that employed in the remaining 53 U.S.

jurisdictions, is presented in Exhibit 1.

### *Case Opened and Issues Determined*

A case is opened when the jurisdiction's State Board of Accountancy either receives a complaint or initiates an action. A complaint may be received from an individual, an entity, or a governmental agency. The Board initiates an action for a variety of reasons. These include a disciplinary action having been taken against the CPA in another jurisdiction, a criminal conviction in federal or state court, or a final civil judgment having been entered against the CPA in a federal or state court. Other examples of reasons the Board may initiate an action include a CPA fails to renew the permit to practice or utilizes inappropriate advertising.

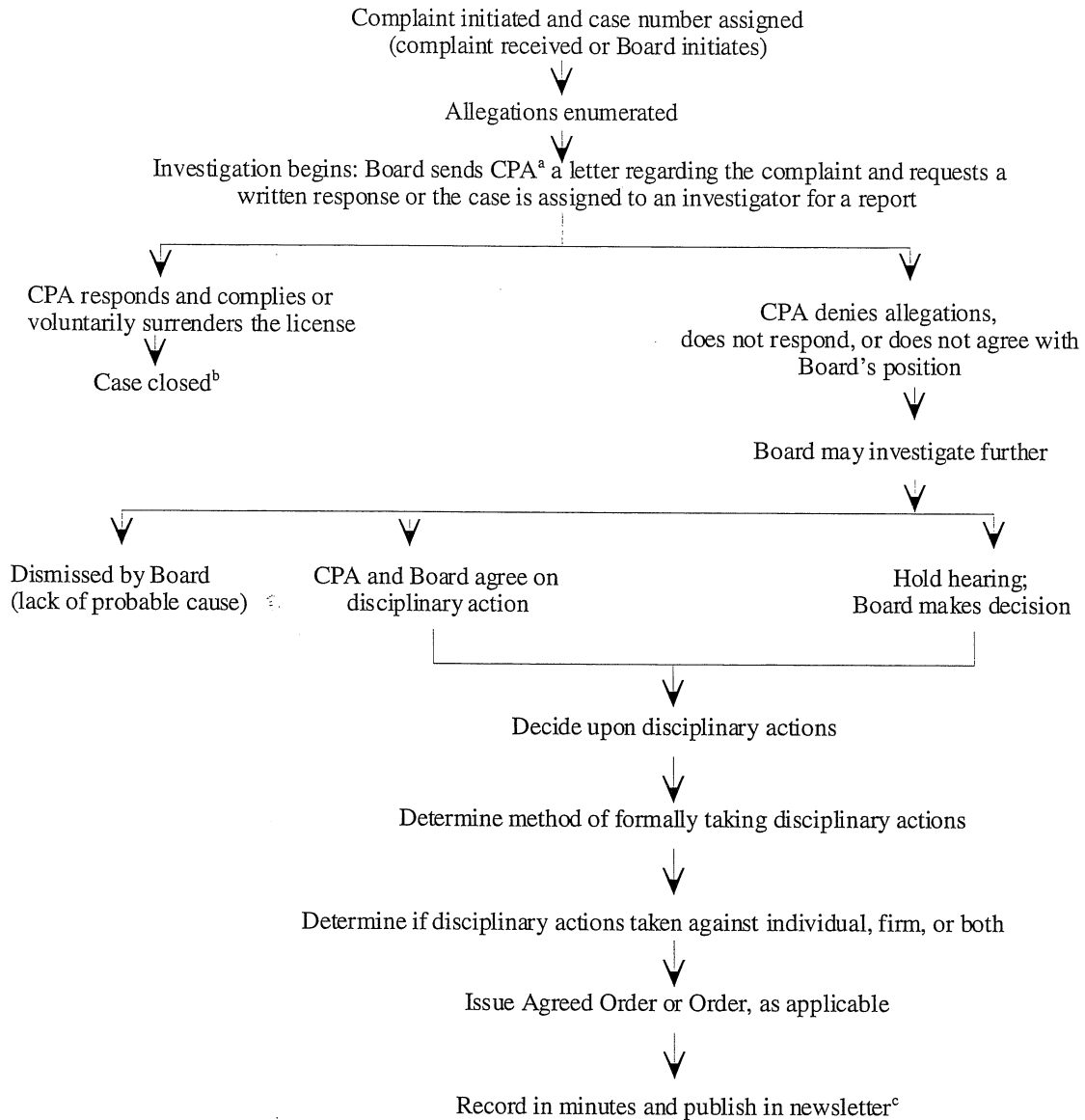
When a case is opened, the allegations involved are determined. The allegations may relate to any aspect of the state accountancy law.

### *Investigation Begins*

The Board sends the CPA a letter with either a copy of the complaint received or a description of the alleged violations. The CPA often responds by agreeing to comply with the directives of the Board,<sup>5</sup> or by voluntarily surrendering the CPA license.<sup>6</sup> Alternatively, the CPA may deny the allegations, agree with the allegations but not concur with the Board's intended action, or not respond. At this point, the Board may investigate further. An informal conference, attended by the CPA, the CPA's attorney, a Board member, the Executive Director of the Board, and the Board attorney, may be held in an effort to gather more information and to ascertain if the issues can be resolved. Also, additional data may be obtained from the complainant or other sources.

Based on the information available, the Board may decide there is lack of probable cause and dismiss the case. Alternatively, the case may proceed.<sup>7</sup>

**EXHIBIT 1  
FLOW OF DISCIPLINARY ACTIONS**



<sup>a</sup> The term CPA is used to include licenses, CPA candidates, and public accounting firms.

<sup>b</sup> For minor violations only; for more serious violations, a voluntary surrender may not be accepted.

<sup>c</sup> An Order may be appealed to a Circuit Court and to the Court of Appeals. While in the appeals process, the Order is not published in the newsletter.

*Disciplinary Actions*

For those cases that go forward, one of two routes may be taken. First, the CPA and the Board may agree on how to resolve a complaint. The disciplinary action, the method of taking the action, and the party (the individual and/or the firm) being disciplined are determined and documented in an Agreed Order. Alternatively, if the CPA and the Board cannot agree on appropriate action, or if the CPA requests, the case goes to a hearing.

A hearing before the full Board is arranged with a hearing officer (judge) assigned by the state presiding. The CPA is entitled to be represented by counsel. Prior to the actual hearing, the CPA, the attorney representing the CPA (if the CPA chooses to have counsel), an Assistant Attorney General (representing the Board), and a hearing officer may hold a conference to resolve issues related to the hearing itself (testimony, records, etc.).

At the actual hearing, the Board's case is presented by a state Assistant Attorney General and the CPA's defense is presented by the counsel for the CPA (or the CPA, if no counsel is hired). After the hearing, the Board makes a decision, which the hearing officer documents in the form of Findings of Fact, Conclusions of Law, and an Order.<sup>8</sup> After review by the full Board, the President signs the Order which usually becomes effective immediately. An Order can then be appealed to a Circuit Court and to the Court of Appeals; it cannot be appealed to the Board.

Whether an Agreed Order or an Order is signed, there are five possible implications to the CPA. First, the license could be revoked. Alternatively, it could be suspended. Two other options are that the license may be placed on probation or the CPA could be censured. Finally, conditions for the CPA to comply with may be attached.

More than one of these actions against the license may be handed down. For example, the

CPA may have the license suspended and also be put on probation for additional time or the license may be revoked and continuing professional education required.

When conditions are attached to the disciplinary action, they are tailored to the particular CPA and issues involved in the case. The Board might specify that continuing professional education be taken and set the number of hours. Study of certain topics within the accounting discipline might be required. Another stipulation may be that work the CPA performs is subject to professional reviews either before release to the client or, if the work has already been performed and released, after its completion.<sup>9</sup> Also, the CPA may be required to repay the costs of the investigation and hearing. If the case involves a CPA candidate, two of the options are that the candidate exam scores are not released and/or that the candidate is not allowed to take the exam again in the jurisdiction.

**Results**

The number of disciplinary actions against CPAs and the issues involved, other than those dismissed, were tabulated for the decade under study. Also, the resulting impact on the CPA license, including any conditions attached, were investigated.

*Numbers of Cases*

A total of 305 cases<sup>10</sup> were analyzed. The results of each of these became public information and were published in the State Board newsletter. Cases which were dismissed were not published. Also, cases which were still pending at the date of the newsletter were held until the Board had made a final decision.

*Issues*

The issues faced in the cases fell into four broad categories. They are: failing to renew the license, practice monitoring program issues,<sup>11</sup> criminal conviction/civil judgment, and law/standards. These are summarized in Exhibit 2.

**EXHIBIT 2  
ISSUES**

<u>Issue</u>	<u>Number of CPAs With This Issue</u>	<u>Percent</u>
Failing to renew license	269	88%
Practice monitoring issues	9	3%
Conviction, civil judgment, guilty plea	7	2%
Other violation of accountancy law	23	8%
Less: Three CPAs experienced two of the issues.	<u>&lt; 3 &gt;</u>	<u>&lt; 1 % &gt;</u>
<b>Total</b>	<u>305</u>	<u>100%</u>

The first group is composed of those who failed to renew their licenses and refused to respond to repeated Board requests for renewal. A total of 269 CPAs, or 88% of the cases, fell into this category. The CPAs may not have taken or reported CPE, may not have paid the appropriate fee, or may not have sent in the appropriate paperwork. The vast majority of these, 260, did not request a hearing and had their licenses revoked. The remaining nine individuals had their cases go forward to hearings. The licenses of these nine were eventually revoked after their cases were presented in hearings before the Board.

Practice monitoring issues plagued three percent, or nine, individual CPAs and their firms; all nine firms were sole proprietorships. Four of these firms received a substandard practice monitoring report and three failed to send the Board the practice monitoring review forms. Of the other two CPAs, one failed to respond to deficiencies noted in the practice monitoring report and the nature of the other practice monitoring case was not disclosed in the newsletter.

Seven CPAs, or two percent of the published cases, faced Board action due to a criminal conviction/civil judgment in federal or state court. Of the seven, one had entered a guilty plea on various federal charges, one had a civil judgment imposed for embezzling funds from a church, and one had pled guilty to two counts of forgery in Circuit Court and two counts of willful failure to file income taxes in Federal Court. The other four had been convicted on various

charges that were not revealed in the newsletter.

The 23 remaining cases revolved around a possible violation of a part of the accountancy statute or regulations other than the CPE, practice monitoring, or conviction/plea. Of these, one case involved a CPA firm, four embraced individual CPAs as well as their firms,<sup>12</sup> 13 were against individual licensees, and one involved a CPA candidate.

The one case against a CPA firm focused on substandard governmental audit work. Also, all four cases embracing CPA firms as well as individual CPAs focused on governmental work in which a federal agency filed the complaint. Of these four, two dealt with lack of independence while the other two centered on lack of adherence to other accounting and auditing professional standards.

The 13 cases against individual licensees revolved around a variety of issues. Three related to tax return preparation and timely filing. Two focused on accounting and audit issues. Failure to follow the specified report language in the professional standards in a pension fund audit was cited in another two cases. Other issues, representing one case each, covered embezzlement,<sup>13</sup> an improper firm name, failure to return client records, and failure to comply with a previously issued Agreed Order. The issues in the final two cases against CPAs were not specified in the newsletter.

One case was brought against a CPA candi-

**EXHIBIT 3  
IMPACT ON LICENSE**

	<u>Number of CPAs with this Impact</u>	<u>Percent</u>
Revoke/Suspend	282	92%
Probation	19	6%
Censure	6	2%
Conditions	20	7%
Less: CPAs who received more than one of the above	<u>&lt;22&gt;</u>	<u>&lt;7%&gt;</u>
<b>Total</b>	<b><u>305</u></b>	<b><u>100%</u></b>

date. That case involved cheating on the CPA exam.

*Impact on License*

Of the 305 CPAs who experienced action taken against them, 301, or 99%, had their licenses revoked, suspended, placed on probation, and/or censured. The few remaining CPAs had conditions attached to their licenses.

A total of 282 CPAs in the jurisdiction had their licenses revoked or suspended in the period under study. Five of the 282 were also placed on probation for a period of time after the revocation/suspension.

Including these five, a total of 19 CPAs were placed on probation. Thirteen of the 19 received probation only, and one CPA was placed on probation and also censured.

Six CPAs were censured. Five were censured only; the remaining case pertains to the CPA who had also received probation.

The disciplinary actions taken against 20 CPAs involved conditions which were specified by the Board. In 16 of these, a revocation/suspension, probation, and/or censure were also attached to the disciplinary action. In the remaining four cases, the CPA was ordered to comply with the conditions, but there was no revocation/suspension, probation, or censure.<sup>14</sup>

The conditions attached to the disciplinary actions were highly case-specific. In five of

these instances, more than one condition was assigned.

Continuing professional educational classes were ordered for 11 CPAs. The number of hours of CPE was either explicitly stated or, if the individual had been stripped of the license, the hours were to be maintained at the same level as if the license was in place.

Eight CPAs were ordered to have preissuance reviews of their work performed. In addition, one was to have postissuance reviews of work which had been completed before the date of the Order.

There were five remaining conditions attached to orders. Four of these mandated that the CPA repay investigative costs to the Board. The last barred the candidate from sitting for the CPA exam in the jurisdiction for a specified number of years.

Exhibit 3 summarizes the impact on the CPAs' licenses. Exhibit 4 summarizes the conditions handed down.

*Form of Disciplinary Action*

The legal forms of disciplinary actions in the jurisdiction studied are generally Agreed Orders or Orders entered following hearings. An Agreed Order is one in which the CPA and the Board agree on action; both parties, and their attorneys, sign the resulting document. In contrast, in the case of Orders entered after hearings, the CPA and the Board hold differing

**EXHIBIT 4  
CONDITIONS**

CPE	11
Preissuance review	8
Postissuance review	1
Repay costs	4
Barred from CPA exam	1
Less: More than one condition	<u>&lt;5&gt;</u>
<b>Total</b>	<b><u>20</u></b>

**EXHIBIT 5  
FORM OF DISCIPLINARY ACTION**

Voluntary Surrender	4
Agreed Order	20
Order	284
Less: Voluntary Surrenders contained in Agreed Orders	<u>&lt;3&gt;</u>
<b>Total</b>	<b><u>305</u></b>

views.

Of the 305 disciplinary actions, 20 Agreed Orders were issued; three of these Agreed Orders contained voluntary surrenders of the license. One additional license was surrendered voluntarily. An Order was issued in 284, or 93%, of the cases. However, 260, or 92%, of those were due to the CPA failing to renew the license and not responding to Board inquiries. Thus, just 14 CPAs had their cases go forward to a hearing that eventually resulted in an Order being issued. These findings are summarized in Exhibit 5.

*Taken Against*

Out of the 305 disciplinary actions taken, 298, or 98%, were taken against individual CPAs. (Recall that 260 of these were due to failure to renew and respond to the Board; these CPAs did not request a hearing.) Nine actions were against public accounting firms. Of the nine, two cited both an individual and the firm in the disciplinary action.

These findings are shown in Exhibit 6.

**Comments And Conclusion**

While the State Board of Accountancy in the jurisdiction studied tailors the disciplinary actions

to the specifics of each case, some broad observations can be made regarding past actions taken.

First, almost all of the disciplinary actions, 99%, resulted in a revocation, suspension, censure, or probation of the CPA's license. The remaining actions against the license resulted in conditions being attached. Further, several CPAs suffered more than one impact to the license. Thus, the Board appears to take very seriously its role of policing the profession.

Second, most of the actions, 98%, were against an individual CPA rather than a firm or a CPA exam candidate. Thirdly, in 88% of the actions, the issue was that the CPA failed to renew the license, rather than negligent work. Taken together, these two points suggest that for many individual CPAs involved in a disciplinary action, the issue is that they do not renew their license. Anecdotal evidence suggests that these are most likely CPAs who are not currently practicing public accounting; thus, the license is not necessary for them to perform their work. These (former) CPAs may not want to take the CPE or pay the fees to keep the license current.

A final observation addresses disciplinary actions other than failing to renew. These 39 issues


**EXHIBIT 6  
TAKEN AGAINST INDIVIDUAL, FIRM**

Individual	298
Public accounting firm	9
Less: Two disciplinary actions against individuals also cited the CPA firm	<u>&lt;2&gt;</u>
<b>Total</b>	<b><u>305</u></b>

related to peer review, a criminal conviction/civil judgment, or another violation of the accountancy law. The issues in this category are more serious and could potentially impact the quality of the CPA's work product.

To evaluate the extent of these more serious disciplinary actions, one should consider the number of CPAs in the jurisdiction during the period under study. There were approximately 5000 CPAs in the state during the decade. The Board was forced to take disciplinary actions against an average of 3.9 CPAs, or less than one-tenth of one percent of CPAs, in the jurisdiction, each year. This speaks well of the quality of work of CPAs in public accounting in the jurisdiction. Managers can have confidence in CPAs as they utilize their work products in critical decision-making.

**Suggestions For Future Research**

The current study explored disciplinary actions taken against CPAs in one of the 54 US jurisdictions. For managers to have confidence in the work products of CPAs, larger studies, across many jurisdictions, would be helpful. Also, since many companies are international and may utilize the work of professional accountants in other countries, similar research exploring disciplinary actions in other countries would be beneficial. 

**Endnotes**

1. Depending on the jurisdiction, the minimum experience is generally one to two years and the CPE requirement typically averages 40 hours per year.
2. The term CPAs will be used to include licensees, CPA candidates (those who are in the process of fulfilling the requirements to become a CPA), and public accounting firms.
3. Each state's Board of Accountancy is an agency of the state, performing a regulatory

- function. It functions as the oversight body, ensuring that the public interest is protected and that CPAs abide by that jurisdiction's accountancy law.
4. The minutes are also publicly available.
  5. For example, the CPA may be cited for failure to renew the license. Upon receipt of a complaint from the Board, the CPA may send in the required documentation of CPE and the renewal fee.
  6. For minor violations, the Board may choose to accept a voluntary surrender; for more serious violations, the Board may elect to not accept a surrender and have the case go forward.
  7. Although the case proceeds, it could, at any point in the process, be dismissed for lack of probable cause.
  8. During or upon completion of a hearing, the CPA and the Board could decide to resolve the complaint through an Agreed Order or the Board could dismiss the case due to lack of evidence to support the allegation (by issuing an Order); these outcomes are rare.
  9. Those are called preissuance and postissuance reviews respectively.
  10. Dismissed cases are excluded from the analysis.
  11. As a monitoring measure for quality control, CPA firms are required to have their attest work reviewed by a team of their peers once every three years.
  12. These four cases resulted in both the individual and the firm being published in the newsletter and count as eight disciplinary actions.
  13. Because a plea/conviction was not noted in the newsletter, it did not appear that this embezzlement issue had been heard in a courtroom; thus, it was not included with the seven in the plea/conviction category.
  14. If the CPA did not comply with the conditions, the Board could take further action.