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# If You Want To Keep Your C.P.A. License, Don't Do This. . . A Case Study of Ramanan V. California Board of Accountancy

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## Abstract

*This is a legal case study of a Certified Public Accountant (CPA) seeking to overturn the decision of the California Board of Accountancy (Board) to revoke his CPA license; however, the Court of Appeal affirmed the Board's decision and the revocation became permanent. The Board found that the CPA had not registered his firm's name with the Board and had violated independence rules. The Board also found that the CPA exhibited gross negligence in his performance of 2 audits by committing 11 extreme violations of Generally Accepted Auditing Standards, as follows: issuing an unqualified opinion when the client's income statement contained inaccurate revenue and earnings figures; dating the audit reports before completion of field work; failure to maintain work papers; failure to obtain evidence; failure to confirm Accounts Receivable; failure to prepare a written audit plan; failure to evaluate the client's internal controls; failure to obtain legal representation letters; failure to determine audit risk; failure to make fraud inquiries; and failure to perform analytical procedures. However, the CPA's most egregious behavior was his dishonesty in communications with the Board.*

**Keywords:** CPA, Revocation, License, Audit, GAAS

## I. OBJECTIVES

The objectives of this article are to: (a) review the literature pertaining to disciplinary sanctions imposed against CPAs; (b) analyze the case of *Ramanan v. California Board of Accountancy* (Ramanan case), focusing on the CPA's violations of Generally Accepted Auditing Standards; and (c) draw conclusions from the above.

## II. REVIEW OF THE LITERATURE

After several massive accounting and financial reporting frauds during the past decade, Bradley (2017) recommended the use of "virtuous professionalism" as a necessary path forward toward the restoration of integrity in financial reporting systems. Juric (2018) investigated the impact of U.S. Securities and Exchange Commission enforcement actions on individual CPAs; the most common CPA breach was related to overstatement of revenue or net income, and offending CPAs were often subjected to serious consequences, including suspension or permanent loss of license. Jenkins (2018) explored sanctions imposed against CPAs for violation of the AICPA Code of Professional Ethics; he found that the Code of Professional Ethics was, by and large, being enforced to defend the public interest. Cardona (2019) examined ethical violations committed by CPAs in Puerto Rico and related disciplinary actions; the researcher found that CPAs who are not members of the AICPA, practicing as sole practitioners, and not participating in peer review programs appear to be more likely to commit ethical violations. Spalding (2019) looked at the AICPA's new "conceptual framework" ethics protocol in a case study of an organization that has initiated such a transition. Krom (2019) examined the degree of fairness among 15,000 disciplinary actions undertaken against attorneys, CPAs and physicians in four states; she found that attorneys and physicians are disciplined at a rate of at least seven times that of CPAs. Several studies have focused on CPAs' ethical violations and related sanctions in various foreign countries: France (Baiada-hireche, 2016); Nigeria (Kida, 2016); Turkey (Pekdemir, 2020); and Canada (Celine, 2021).

The present article is an analysis of a legal case in 2019 pertaining to an auditor working in a small CPA firm in California. After committing numerous violations of Generally Accepted Auditing Standards (GAAS) during two audits, the auditor's CPA license was permanently revoked by the California Board of Accountancy. The article covers specific nuances of an auditor's violations of GAAS, it illustrates egregious auditor behavior and will serve as a warning to other auditors; accordingly, this article will enrich the literature.

## III. BACKGROUND

This dispute concerns CPA license revocation action taken by the California Board of Accountancy (Board). On or about November 12, 2009, the Board filed an accusation alleging several causes for discipline and requesting a hearing and a subsequent decision revoking or suspending the professional accountancy licenses of Subramaniam Easwara Ramanan (Ramanan) and his accounting firm, Neeka Accountancy Corporation (Neeka). (Hereinafter, Ramadan and Neeka are collectively referred to as "Accountants"). After a 23-day hearing before Administrative Law Judge Steven C. Owyang (ALJ) that spanned a period of over nine months, the ALJ issued a decision on April 4, 2012 recommending that the Accountants' licenses be revoked. The ALJ held there was clear and convincing evidence that each of the eight causes for discipline alleged by the Board should be sustained. The ALJ stated further that if the Accountants had not been dishonest in their communication, then the imposition of probation might have been the appropriate disciplinary action. But given the dishonesty of Accountants, the ALJ concluded that permanent revocation of the licenses was appropriate. The Board adopted the ALJ's decision in its entirety, and it became final on June 28, 2012. Subsequently, Accountants filed a petition for administrative writ of mandamus challenging the Board's decision. A statement of decision and judgment were filed by the court below in October, 2014 denying Accountants' writ petition. On appeal, Accountants asserted four claims of error (Ramanan case, pp. 1, 4-5).

## IV. GROUNDS FOR DISCIPLINE CITED BY THE BOARD

### A. Did the Accountants exhibit a Lack of Independence?

Yes. Rule 65 of the Board requires auditors to be independent of the client they are auditing. One of Accountants' employees, Nalin Ramalingam (Nalin), also worked for one of Accountants' clients, Systat, Inc. (Systat) as Acting Chief Financial Officer (CFO). Nalin, who worked on the audit of Systat in 2003 and 2004, was not independent because of his position as an officer of the client. In its decision, the Board cited the AICPA's independence standard which states that independence is impaired if an auditor is simultaneously associated with the client as a director, officer or employee. Why is it so important for an auditor to be totally independent of the client? Because if the auditor is also serving as an officer of the client, as in this case, he cannot possibly render an impartial opinion on the client's financial statements because he has a conflict of interest; the auditor will be biased toward rendering a favorable audit opinion because he will want the client firm to be viewed positively (Ramanan case, pp. 5, 50-53).

### B. Did the Accountants commit gross negligence in their performance of the audits of Systat's 2003 and 2004 financial statements by committing eleven (11) "extreme" departures from Generally Accepted Auditing Standards (GAAS)?

Yes. The eleven extreme GAAS violations are as follows:

**1.** ***The 2004 audit report of Systat contained inaccurate revenue and earnings figures.***

At the hearing, the Accountants acknowledged the figures were inaccurate, but they attributed this to a "typographical error." The ALJ concluded the misstatement was more than a typographical error and that it manifested gross negligence, a failure to exercise due care, and a failure to issue a report conforming to professional standards (Ramanan case, pp. 55-56).

**2.** ***The 2003 and 2004 audit reports were dated before the completion of field work.***

Audit reports are required to be dated as of the last day of field work, but Ramanan failed to comply with this requirement. The ALJ determined this allegation was confirmed by the evidence that relevant documents were dated after the dates of the 2003 and 2004 audit reports. For example, the report of the other auditor—who audited Systat UK's financial statements—was June 2, 2003. However, the Accountants' audit report is dated May 16, 2003. The Accountants had the responsibility of documenting their field work and they failed to show that their field work was completed before the dates of their audit reports (Ramanan case, pp. 56-57).

***3. Were the Accountants' work papers in violation of GAAS because they failed to show sufficient evidence of adequate planning and audit work performed?***

Yes. After a complaint was filed with the Board by one of the Accountants' former employees, the Board opened an investigation and requested work papers relating to the 2003, 2004 and 2005 audits of Systat. The Accountants submitted the work papers in 2008 but there were a number of deficiencies in them: no planning material; general procedures audit forms were blank; and there was a failure to index the documentation to the financial statements. The ALJ stated they were incomplete and failed to indicate the nature, timing, extent, and results of the audit procedures performed, evidence obtained, and conclusions reached. The Accountants gave several excuses for the deficiencies: (a) the server in their office had crashed, resulting in a loss of the documents; (b) Systat's prior auditor had removed them; and (c) there had been a theft of confidential materials from the firm, hard copies of the work papers were stolen, electronic work papers were deleted, and backup DVDs were overwritten. In September, 2010—26 months after the Board's initial request for the work papers from the 2003, 2004 and 2005

audits—the Accountants provided the Board with over 2,300 pages of documents they claimed were work papers from "e-binders" which had been recovered by one of their employees from deleted (but not overwritten) files on older computer equipment (Ramanan case, pp. 27-29).

The ALJ ruled that the Accountants failed to show that the work papers submitted in 2010 were genuine. The ALJ ruled that Accountants did not provide for the safe custody of work papers and failed to satisfy professional standards and legal requirements for records retention. Furthermore, the ALJ determined that Accountants failed to adequately plan and document their audit procedures for the 2003 and 2004 audit reports, including failing to audit material portions of the financial statements. The Accountants' work papers were incomplete, with large portions completely blank, and they failed to record the procedures applied, tests performed, evidence obtained, and relevant conclusions reached in the audit engagements. The Accountants' failure to fill in the gaps in their work papers raised a rebuttable presumption that the procedures were not applied, tests were not performed, information was not obtained, and relevant conclusions were not reached. The ALJ correctly stated that the Accountants had the burden to present evidence rebutting the presumption, and they failed to do so. The ALJ noted that Ramanan's testimony on these issues was "evasive, convoluted, and ultimately not persuasive" (Ramanan case, pp. 15-17, 55, 57-60, 67, 69-70).

***4. Did the Accountants fail to obtain, document and evaluate evidential matter?***

Yes. The Accountants failed to gather sufficient relevant evidence in support of the audit reports in the two years. The insufficiency of evidence was exacerbated by the absence of a written plan before field work which would have indicated the specific types of audit tests to be performed and the specific types of evidence to be gathered which would enable those audit tests to be carried out. The few documents that Accountants did provide were not indexed or correlated to the 2003 and 2004 financial statements (Ramanan case, pp. 61-62).

**5. *The Accountants failed to perform planned, specific procedures pertaining to Accounts Receivable in the audit reports.***

Accounts Receivable confirmations are a mandatory, essential part of a financial statement audit. The Accountants were required to confirm the existence and the amount of the client's Accounts Receivables, but failed to do so (pp. 62-63).

**6. *The Accountants failed to adequately plan regarding the nature, timing and extent of auditing procedures in the 2003 and 2004 audit reports.***

The Accountants were required to prepare a written audit plan pertaining to the specific auditing procedures expected to be undertaken during the audit, but they failed to do so. GAAS requires auditors to make a detailed audit plan before commencing field work, but that did not occur in these two audits (Ramanan case, pp. 63-64).

**7. *The Accountants failed to perform internal control work for the 2003 and 2004 audit reports.***

Prior to the audits of 2003 and 2004, the Accountants were required to: (1) document the client's internal controls; (2) test the controls; and (3) determine the amount of control risk; but they failed to do so. GAAS mandates the evaluation of the internal controls as a part of audit planning, but that never occurred in this case (Ramanan case, pp. 64-65).

**8. *The Accountants failed to obtain legal representation letters for the 2003 and 2004 audit reports.***

The Accountants were required to obtain a letter from the client's legal counsel regarding the present and expected future amount of expected legal liabilities of the client, but they failed to do so. This requirement is required in order to bring the reader's attention to the present and potential legal liability of the client (Ramanan case, pp. 65-66).

**9. *The Accountants failed to consider audit risk for the individual account balances and for classes of transactions in the 2003 and 2004 audit reports.***

Audit risk must be taken into account during the planning phase of an audit. This is because the greater the degree of audit risk, the greater the need for the auditor to carry out more audit tests and to use more stringent audit tests during field work. In addition to the Accountants' failure to consider audit risk in the two years, they also failed to make a determination of materiality in 2003 (Ramanan case, pp. 66-67).

**10. *The Accountants failed to make fraud inquiries of management for the 2003 and 2004 audit reports.***

GAAS requires the auditor to consider the probability that fraud may have occurred at the client firm. Part of the fraud consideration involves making inquiries of management regarding issues associated with the possibility of fraud. The Accountants were required to make fraud-related inquiries of management in both years, but there is no evidence they did so (Ramanan case, pp. 67-68).

**11.** ***The Accountants failed to perform analytical procedures in the planning and review stages of the 2003 and 2004 audit reports***.

During an audit, analytical procedures must be performed in the planning stage and at the end of the audit as a review mechanism. Analytical procedures are optional in the middle of an audit, while it is underway. In this case, there is no evidence that the Accountants performed analytical procedures at any time (Ramanan case, pp. 68-69).

**C. Did the Accountants' acts of gross negligence constitute a failure to exercise due professional care during the audit?**

Yes. According to GAAS, a CPA is mandated to conduct an audit with due professional care. The eleven extreme violations of GAAS violations in this case shows that the Accountants did not exercise due professional care (Ramanan case, p. 56).

**D. Did the Accountants' acts of gross negligence constitute multiple willful violations of applicable professional standards which justified the Board's issuance of the most stringent penalty against the Accountants?**

Yes. The numerous violations of the Accountants in this case justified the Board in issuing the most extreme sanction—revocation of the CPA's license (Ramanan case, pp. 65-66).

**E. Did Ramanan use an unregistered firm name?**

Yes. Ramanan failed to register the firm name of Neeka Accountancy Corporation with the Board while he was engaging in public accountancy, as he was legally required to do (Ramanan case, pp. 70-71).

**F. Was Ramanan dishonest?**

Yes. The ALJ found that the work papers submitted to the Board in 2010 were not genuine. Throughout the investigation of this matter and when testifying at the ALJ hearing, Ramanan was often evasive, misleading and untruthful (Ramanan case, pp. 42-50).

The ALJ and the Board stated that if Ramanan had been entirely honest during this matter, his license would not have been permanently revoked and he would have received only a temporary suspension. A CPA must be honest! This was the most damning charge against the auditor (Ramanan case, pp. 5-6, 55, 73-75, 107).

## V. LEGAL ISSUES ON APPEAL

**A. Were the Board's amendments during the administrative hearing, which asserted new charges, procedurally defective because they were undated and unsigned?**

No. The Accountants forfeited any procedural challenge to the Board's amendments during the hearing because they failed to preserve any such challenge with a timely objection at the hearing. Also, the Court ruled that the challenge, even if it had been preserved, was meritless (Ramanan case, pp. 1-3).

**B. Was the decision of the Administrative Law Judge in the administrative hearing defective due to insufficient factual findings and failure to address all issues raised at the hearing?**

No. The Board's decision contained numerous findings from which a reviewing court could determine the procedures used at the hearing to analyze the evidence and to reach its conclusions (Ramanan case, pp. 2-3).

**C. Did the trial court err by improperly inserting its own factual findings as a means of attempting to cure the inadequate findings of the administrative decision being reviewed?**

No. The Accountants' claim that the court improperly made its own factual findings was forfeited; the Accountants failed to make a timely objection. However, even assuming *arguendo* the claim was not forfeited, the claim lacks merit (Ramanan case, pp. 2-3).

**D. Did the trial court err by improperly delegating its judicial duties by ordering the Board to prepare a proposed statement of decision that included specific references to exhibits supporting factual findings, when the court had not adequately supported its tentative decision in the first instance?**

No. The Accountants' contention that the court improperly delegated its judicial duties was also forfeited, but regardless, it is meritless. (Ramanan case, pp. 3-4).

**E. What was the final outcome in this case?**

On August 27, 2019, the California Court of Appeal, Sixth Appellate District, affirmed the Board's decision to revoke the CPA's license; the revocation became permanent.

## VI. CONCLUSIONS

If you want to keep your CPA license, don't do this:

A. Don't hire the audit client's CFO to help you audit the client. Maintain independence from the client firm.

B. Don't issue an unqualified opinion if the client firm is inaccurately reporting its revenue and earnings.

C. Don't date your audit report before the completion of field work.

D. Don't keep inaccurate, misleading or incomplete work papers.

E. Don't fail to gather, document and evaluate sufficient, relevant audit evidence.

F. Don't begin your field work without a formal written audit plan stating the audit tests to be performed and the types of evidence you will need to gather and evaluate in order to carry out those tests.

G. Don't fail to evaluate the client's internal controls before commencing the audit of the financial statements.

H. Don't fail to obtain a legal representation letter from the audit client's attorney.

I. Don't fail to consider audit risk, for both individual account balances and classes of transactions, when you plan the audit.

J. Don't fail to make fraud inquiries of the client firm's managers.

K. Don't fail to perform analytical procedures during the planning stage of the audit and at the end of the audit.

L. Don't forget to register your CPA firm name with the Board.

M. And above all, don't forget to be totally honest and transparent whenever you are under investigation by the Board. In this case, if Ramanan had been honest and forthcoming in his communications with the Board and the Administrative Law Judge, he probably would not have permanently lost his CPA license.

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## Biographical Sketch

Dr. Stephen Blythe is Associate Professor of Accounting and Business Law at Tarleton State University in Stephenville and Fort Worth, Texas. He earned a B.S. in Public Administration at the University of Arkansas Sam M. Walton College of Business in 1970, an M.B.A. at Arkansas State University College of Business in 1975, a Ph.D. in Business Administration (Accounting, Management and Economics) at the University of Arkansas Sam M. Walton College of Business in 1979, a J.D. in Law at Texas Southern University Thurgood Marshall School of Law in 1986, an LL.M. in International Business Law at the University of Houston Law Center in 1992, an LL.M. in Computer Law at the University of Strathclyde School of Law (Scotland, U.K.) in 2005, and a Ph.D. in Computer Law at The University of Hong Kong School of Law (China) in 2010. He holds four accounting certifications (Certified Public Accountant & Certified Management Accountant & Certified Internal Auditor & Certified Fraud Examiner) and is a licensed Attorney at Law in Texas and Oklahoma. He is the author of a 3-volume trilogy on International E-Commerce Law (available at Amazon.com and BarnesAndNoble.com) and has published in *Accounting, Economics and Law--A Convivium*, *Columbia Journal of East European Law*, *European Journal of Law and Economics*, *Houston Journal of International Law*, *Journal of Accounting, Ethics and Public Policy, Journal of Leadership, Accountability and Ethics*, *Syracuse Journal of International Law and Commerce* and 50 other accounting and law journals. He was an accountant at a wholesale furniture manufacturing company in Houston in the 1980s and represented insurance companies in litigation in Oklahoma City in the 1990s. He has traveled in sixty countries and worked overseas for twenty years in Japan, China, Africa and the Middle East. He is a U.S. Marine Corps Veteran.