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SENATE BILL 6817

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State of Washington 57th Legislature

2002 Regular Session

By Senators Carlson, Benton, Oke, Morton, Stevens, Zarelli and Honeyford

Read first time 02/18/2002. Referred to Committee on Labor, Commerce & Financial Institutions.

1 AN ACT Relating to restoring public confidence in the profession of  
2 public accountancy; amending RCW 18.04.015, 18.04.055, 18.04.065,  
3 18.04.195, 18.04.295, 18.04.305, and 18.04.345; amending 2001 c 294 s  
4 23 (uncodified); and declaring an emergency.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 **Sec. 1.** RCW 18.04.015 and 2001 c 294 s 1 are each amended to read  
7 as follows:

8 (1) It is the policy of this state and the purpose of this chapter:

9 (a) To promote the dependability of information which is used for  
10 guidance in financial transactions or for accounting for or assessing  
11 the status or performance of commercial and noncommercial enterprises,  
12 whether public, private or governmental, by preventing conflicts of  
13 interest in the ownership of certified public accounting firms and  
14 separating the auditing function from any other interests, as well as  
15 by other means; and

16 (b) To protect the public interest by requiring that:

17 (i) Persons who hold themselves out as licensees or certificate  
18 holders conduct themselves in a competent, ethical, and professional  
19 manner;

1 (ii) A public authority be established that is competent to  
2 prescribe and assess the qualifications of certified public  
3 accountants, including certificate holders who are not licensed for the  
4 practice of public accounting;

5 (iii) Persons other than licensees refrain from using the words  
6 "audit," "review," and "compilation" when designating a report  
7 customarily prepared by someone knowledgeable in accounting;

8 (iv) A public authority be established to provide for consumer  
9 alerts and public protection information to be published regarding  
10 persons or firms who violate the provisions of chapter 294, Laws of  
11 2001 or board rule and to provide general consumer protection  
12 information to the public; and

13 (v) The use of accounting titles likely to confuse the public be  
14 prohibited.

15 (2) The purpose of this act is to make revisions to chapter 234,  
16 Laws of 1983; chapter 103, Laws of 1992; and chapter 294, Laws of 2001  
17 to: Limit ownership of certified public accounting firms to licensees,  
18 provide for a clear separation of auditing functions from any other  
19 interests, and prohibit contingency and referral fees.

20 (3) The purpose of chapter 294, Laws of 2001 is to make revisions  
21 to chapter 234, Laws of 1983 and chapter 103, Laws of 1992 to: Fortify  
22 the public protection provisions of chapter 294, Laws of 2001;  
23 establish one set of qualifications to be a licensee; revise the  
24 regulations of certified public accountants; make revisions in the  
25 ownership of certified public accounting firms; assure to the greatest  
26 extent possible that certified public accountants from Washington state  
27 are substantially equivalent with certified public accountants in other  
28 states and can therefore perform the duties of certified public  
29 accountants in as many states and countries as possible; assure  
30 certified public accountants from other states and countries have met  
31 qualifications that are substantially equivalent to the certified  
32 public accountant qualifications of this state; and clarify the  
33 authority of the board of accountancy with respect to the activities of  
34 persons holding licenses and certificates under this chapter. It is  
35 not the intent of chapter 294, Laws of 2001 to in any way restrict or  
36 limit the activities of persons not holding licenses or certificates  
37 under this chapter except as otherwise specifically restricted or  
38 limited by chapter 234, Laws of 1983 and chapter 103, Laws of 1992.

1       (~~(3)~~) (4) A purpose of chapter 103, Laws of 1992, revising  
2 provisions of chapter 234, Laws of 1983, is to clarify the authority of  
3 the board of accountancy with respect to the activities of persons  
4 holding certificates under this chapter. Furthermore, it is not the  
5 intent of chapter 103, Laws of 1992 to in any way restrict or limit the  
6 activities of persons not holding certificates under this chapter  
7 except as otherwise specifically restricted or limited by chapter 234,  
8 Laws of 1983.

9       **Sec. 2.** RCW 18.04.055 and 2001 c 294 s 5 are each amended to read  
10 as follows:

11       The board may adopt and amend rules under chapter 34.05 RCW for the  
12 orderly conduct of its affairs. The board shall prescribe rules  
13 consistent with this chapter as necessary to implement this chapter.  
14 Included may be:

15       (1) Rules of procedure to govern the conduct of matters before the  
16 board;

17       (2) Rules of professional conduct for all licensees(~~(7)~~) and  
18 certificate holders, (~~(and nonlicensee owners of licensed firms,7)~~) in  
19 order to establish and maintain high standards of competence and ethics  
20 including rules dealing with independence, integrity, objectivity, and  
21 freedom from conflicts of interest;

22       (3) Rules specifying actions and circumstances deemed to constitute  
23 holding oneself out as a licensee in connection with the practice of  
24 public accountancy;

25       (4) Rules specifying the manner and circumstances of the use of the  
26 titles "certified public accountant" and "CPA," by holders of  
27 certificates who do not also hold licenses under this chapter;

28       (5) Rules specifying the educational requirements to take the  
29 certified public accountant examination;

30       (6) Rules designed to ensure that licensees' "reports on financial  
31 statements" meet the definitional requirements for that term as  
32 specified in RCW 18.04.025;

33       (7) Requirements for CPE to maintain or improve the professional  
34 competence of licensees as a condition to maintaining their license and  
35 certificate holders as a condition to maintaining their certificate  
36 under RCW 18.04.215;

37       (8) Rules governing firms issuing or offering to issue reports on  
38 financial statements or using the title "certified public accountant"

1 or "CPA" including, but not limited to, rules concerning their style,  
2 name, title, and affiliation with any other organization, and  
3 establishing reasonable practice and ethical standards to protect the  
4 public interest;

5 (9) The board may by rule implement a quality assurance review  
6 program as a means to monitor licensees' quality of practice and  
7 compliance with professional standards. The board may exempt from such  
8 program, licensees who undergo periodic peer reviews in programs of the  
9 American Institute of Certified Public Accountants, NASBA, or other  
10 programs recognized and approved by the board;

11 (10) The board may by rule require licensed firms to obtain  
12 professional liability insurance if in the board's discretion such  
13 insurance provides additional and necessary protection for the public;

14 (11) Rules specifying the experience requirements in order to  
15 qualify for a license;

16 (12) Rules specifying the requirements for certificate holders to  
17 qualify for a license under this chapter which must include provisions  
18 for meeting CPE and experience requirements prior to application for  
19 licensure;

20 ~~(13) ((Rules specifying the registration requirements, including~~  
21 ~~ethics examination and fee requirements, for resident nonlicensee~~  
22 ~~partners, shareholders, and managers of licensed firms;~~

23 ~~(14))~~ Rules specifying the ethics CPE requirements for certificate  
24 holders and owners of licensed firms, including the process for  
25 reporting compliance with those requirements;

26 ~~((15))~~ (14) Rules specifying the experience and CPE requirements  
27 for licensees offering or issuing reports on financial statements;  
28 ~~((and~~

29 ~~(16))~~ (15) Any other rule which the board finds necessary or  
30 appropriate to implement this chapter; and

31 (16) The board shall adopt rules to prohibit either a licensee or  
32 a licensed firm from conducting any activity which would, or appear to  
33 the public to, compromise the integrity of the practice of public  
34 accounting. The rules shall, at a minimum, prohibit either a licensee  
35 or a licensed firm which provides services to a client of the nature of  
36 the issuance of audit reports or review reports on financial statements  
37 from providing significant consulting or other services to that client,  
38 unless the provision of those services clearly does not, and can not  
39 reasonably appear to the public, to compromise the integrity of the

1 practice of public accounting. The rules shall be adopted to be  
2 effective no later than January 1, 2003.

3 **Sec. 3.** RCW 18.04.065 and 2001 c 294 s 6 are each amended to read  
4 as follows:

5 The board shall set its fees at a level adequate to pay the costs  
6 of administering this chapter. All fees for licenses, (~~registrations~~  
7 ~~of nonlicensee partners, shareholders, and managers of licensed~~  
8 ~~firms,)) renewals of licenses, (~~renewals of registrations of~~  
9 ~~nonlicensee partners, shareholders, and managers of licensed firms,))~~  
10 renewals of certificates, reinstatements of lapsed licenses,  
11 reinstatements of lapsed certificates, (~~reinstatements of lapsed~~  
12 ~~registrations of nonlicensee partners, shareholders, and managers of~~  
13 ~~licensed firms,)) practice privileges under RCW 18.04.350, and~~  
14 delinquent filings received under the authority of this chapter shall  
15 be deposited in the certified public accountants' account created by  
16 RCW 18.04.105. Appropriation from such account shall be made only for  
17 the cost of administering the provisions of this chapter.~~

18 **Sec. 4.** RCW 18.04.195 and 2001 c 294 s 11 are each amended to read  
19 as follows:

20 (1) A sole proprietorship engaged in business in this state and  
21 offering to issue or issuing reports on financial statements or using  
22 the title CPA or certified public accountant shall license, as a firm,  
23 every three years with the board.

24 (a) The principal purpose and business of the firm shall be to  
25 furnish services to the public which are consistent with this chapter  
26 and the rules of the board;

27 (b) The sole proprietor shall hold a license to practice under RCW  
28 18.04.215;

29 (~~(b)~~) (c) Each resident person in charge of an office located in  
30 this state shall hold a license to practice under RCW 18.04.215; and

31 (~~(c)~~) (d) The licensed firm must meet competency requirements  
32 established by rule by the board.

33 (2) A partnership engaged in business in this state and offering to  
34 issue or issuing reports on financial statements or using the title CPA  
35 or certified public accountant shall license as a firm every three  
36 years with the board, and shall meet the following requirements:

1       (a) The principal purpose and business of the partnership shall be  
2 to furnish services to the public which are consistent with this  
3 chapter and the rules of the board;

4       (b) At least one general partner of the partnership shall hold a  
5 license to practice under RCW 18.04.215;

6       (~~((b))~~) (c) Each resident person in charge of an office in this  
7 state and each resident partner personally engaged within this state in  
8 the practice of public accounting shall hold a license to practice  
9 under RCW 18.04.215; and

10       (~~((c) A simple majority of the ownership of the licensed firm in~~  
11 ~~terms of financial interests and voting rights of all partners or~~  
12 ~~owners shall be held by natural persons who are licensees or holders of~~  
13 ~~a valid license issued under this chapter or by another state that~~  
14 ~~entitles the holder to practice public accounting in this state. The~~  
15 ~~principal partner of the partnership and any partner having authority~~  
16 ~~over issuing reports on financial statements shall hold a license under~~  
17 ~~this chapter or issued by another state that entitles the holder to~~  
18 ~~practice public accounting in this state; and))~~)

19       (d) The licensed firm must meet competency requirements established  
20 by rule by the board.

21       (3) A corporation engaged in business in this state and offering to  
22 issue or issuing reports on financial statements or using the title CPA  
23 or certified public accountant shall license as a firm every three  
24 years with the board and shall meet the following requirements:

25       (a) (~~(A simple majority of the ownership of the licensed firm in~~  
26 ~~terms of financial interests and voting rights of all shareholders or~~  
27 ~~owners shall be held by natural persons who are licensees or holders of~~  
28 ~~a valid license issued under this chapter or by another state that~~  
29 ~~entitles the holder to practice public accounting in this state and~~  
30 ~~is))~~) The principal purpose and business of the corporation shall be to  
31 furnish services to the public which are consistent with this chapter  
32 and the rules of the board; and

33       (b) Each shareholder of the corporation shall be a certified public  
34 accountant of some state holding a license to practice and shall be  
35 principally employed by the corporation or actively engaged in its  
36 business. No other person may have any interest in the stock of the  
37 corporation. The principal officer of the corporation and any officer  
38 or director having authority over issuing reports on financial  
39 statements shall hold a license under this chapter or issued by another

1 state that entitles the holder to practice public accounting in this  
2 state;

3 ~~((b))~~ (c) At least one shareholder of the corporation shall hold  
4 a license under RCW 18.04.215;

5 ~~((e))~~ (d) Each resident person in charge of an office located in  
6 this state and each shareholder or director personally engaged within  
7 this state in the practice of public accounting shall hold a license  
8 under RCW 18.04.215;

9 ~~((d))~~ (e) A written agreement shall bind the corporation or its  
10 shareholders to purchase any shares offered for sale by, or not under  
11 the ownership or effective control of, a qualified shareholder, and  
12 bind any holder not a qualified shareholder to sell the shares to the  
13 corporation or its qualified shareholders. The agreement shall be  
14 noted on each certificate of corporate stock. The corporation may  
15 purchase any amount of its stock for this purpose, notwithstanding any  
16 impairment of capital, as long as one share remains outstanding;

17 ~~((e))~~ (f) The corporation shall comply with any other rules  
18 pertaining to corporations practicing public accounting in this state  
19 as the board may prescribe; and

20 ~~((f))~~ (g) The licensed firm must meet competency requirements  
21 established by rule by the board.

22 (4) A limited liability company engaged in business in this state  
23 and offering to issue or issuing reports on financial statements or  
24 using the title CPA or certified public accountant shall license as a  
25 firm every three years with the board, and shall meet the following  
26 requirements:

27 (a) The principal purpose and business of the limited liability  
28 company shall be to furnish services to the public which are consistent  
29 with this chapter and the rules of the board;

30 (b) At least one ~~((member))~~ manager of the limited liability  
31 company shall hold a license under RCW 18.04.215;

32 ~~((b))~~ (c) Each resident manager or member in charge of an office  
33 located in this state and each resident manager or member personally  
34 engaged within this state in the practice of public accounting shall  
35 hold a license under RCW 18.04.215; and

36 ~~((c) A simple majority of the ownership of the licensed firm in~~  
37 ~~terms of financial interests and voting rights of all owners shall be~~  
38 ~~held by natural persons who are licensees or holders of a valid license~~  
39 ~~issued under this chapter or by another state that entitles the holder~~

1 to practice public accounting in this state. The principal member or  
2 manager of the limited liability company and any member having  
3 authority over issuing reports on financial statements shall hold a  
4 license under this chapter or issued by another state that entitles the  
5 holder to practice public accounting in this state; and))

6 (d) The licensed firm must meet competency requirements established  
7 by rule by the board.

8 (5) Application for a license as a firm shall be made upon the  
9 affidavit of the proprietor or person designated as managing partner(  
10 member,)) or shareholder for Washington. This person shall hold a  
11 license under RCW 18.04.215. The board shall determine in each case  
12 whether the applicant is eligible for a license. A partnership,  
13 corporation, or limited liability company which is licensed to practice  
14 under RCW 18.04.215 may use the designation "certified public  
15 accountants" or "CPAs" in connection with its partnership, limited  
16 liability company, or corporate name. The board shall be given  
17 notification within ninety days after the admission or withdrawal of a  
18 partner, shareholder, or member engaged in this state in the practice  
19 of public accounting from any partnership, corporation, or limited  
20 liability company so licensed.

21 (~~6~~) (~~Licensed firms which fall out of compliance with the~~  
22 ~~provisions of this section due to changes in firm ownership or~~  
23 ~~personnel, after receiving or renewing a license, shall notify the~~  
24 ~~board in writing within thirty days of its falling out of compliance~~  
25 ~~and propose a time period in which they will come back into compliance.~~  
26 ~~The board may grant a reasonable period of time for a firm to be in~~  
27 ~~compliance with the provisions of this section. Failure to bring the~~  
28 ~~firm into compliance within a reasonable period of time, as determined~~  
29 ~~by the board, may result in suspension, revocation, or imposition of~~  
30 ~~conditions on the firm's license.~~

31 (~~7~~)) Fees for the license as a firm and for notification of the  
32 board of the admission or withdrawal of a partner, shareholder, or  
33 member shall be determined by the board. Fees shall be paid by the  
34 firm at the time the license application form or notice of admission or  
35 withdrawal of a partner, shareholder, or member is filed with the  
36 board.

37 (~~8~~) Nonlicensee owners of licensed firms are:

38 (a) Required to fully comply with the provisions of this chapter  
39 and board rules;

1       ~~(b) Required to be a natural person;~~

2       ~~(c) Required to be an active individual participant in the licensed~~  
3 ~~firm or affiliated entities as these terms are defined by board rule;~~  
4 ~~and~~

5       ~~(d) Subject to discipline by the board for violation of this~~  
6 ~~chapter.~~

7       ~~(9) Resident nonlicensee owners of licensed firms are required to~~  
8 ~~meet:~~

9       ~~(a) The ethics examination, registration, and fee requirements as~~  
10 ~~established by the board rules; and~~

11       ~~(b) The ethics CPE requirements established by the board rules.)~~

12       **Sec. 5.** RCW 18.04.295 and 2001 c 294 s 14 are each amended to read  
13 as follows:

14       The board shall have the power to: Revoke, suspend, refuse to  
15 renew, or reinstate a license or certificate; impose a fine in an  
16 amount not to exceed ten thousand dollars plus the board's  
17 investigative and legal costs in bringing charges against a certified  
18 public accountant, a certificate holder, a licensee, or a licensed  
19 firm(~~(, or a nonlicensee holding an ownership interest in a licensed~~  
20 ~~firm))~~; may impose full restitution to injured parties; or may impose  
21 conditions precedent to renewal of a certificate or a license(~~(; or may~~  
22 ~~prohibit a nonlicensee from holding an ownership interest in a licensed~~  
23 ~~firm,~~) for any of the following causes:

24       (1) Fraud or deceit in obtaining a license, or in any filings with  
25 the board;

26       (2) Dishonesty, fraud, or negligence while representing oneself as  
27 (~~a nonlicensee owner holding an ownership interest in a licensed~~  
28 ~~firm,~~) a licensee(~~(,)~~) or a certificate holder;

29       (3) A violation of any provision of this chapter;

30       (4) A violation of a rule of professional conduct promulgated by  
31 the board under the authority granted by this chapter;

32       (5) Conviction of a crime or an act constituting a crime under:

33       (a) The laws of this state;

34       (b) The laws of another state, and which, if committed within this  
35 state, would have constituted a crime under the laws of this state; or

36       (c) Federal law;

37       (6) Cancellation, revocation, suspension, or refusal to renew the  
38 authority to practice as a certified public accountant by any other

1 state for any cause other than failure to pay a fee or to meet the  
2 requirements of CPE in the other state;

3 (7) Suspension or revocation of the right to practice matters  
4 relating to public accounting before any state or federal agency;

5 For purposes of subsections (6) and (7) of this section, a  
6 certified copy of such revocation, suspension, or refusal to renew  
7 shall be prima facie evidence;

8 (8) Failure to maintain compliance with the requirements for  
9 issuance, renewal, or reinstatement of a certificate or license, or to  
10 report changes to the board;

11 (9) Failure to cooperate with the board by:

12 (a) Failure to furnish any papers or documents requested or ordered  
13 by the board;

14 (b) Failure to furnish in writing a full and complete explanation  
15 covering the matter contained in the complaint filed with the board or  
16 the inquiry of the board;

17 (c) Failure to respond to subpoenas issued by the board, whether or  
18 not the recipient of the subpoena is the accused in the proceeding;

19 ~~(10) ((Failure by a nonlicensee owner of a licensed firm to comply  
20 with the requirements of this chapter or board rule; and~~

21 ~~(11)))~~ Failure to comply with an order of the board.

22 **Sec. 6.** RCW 18.04.305 and 2001 c 294 s 15 are each amended to read  
23 as follows:

24 The board may revoke, suspend, or refuse to renew the license  
25 issued to a firm if at any time the firm does not meet the requirements  
26 of this chapter for licensing, or for any of the causes enumerated in  
27 RCW 18.04.295, or for any of the following additional causes:

28 (1) The revocation or suspension of the sole-practitioner's license  
29 or the revocation or suspension or refusal to renew the license of any  
30 partner, manager, member, or shareholder;

31 (2) The revocation, suspension, or refusal to renew the license of  
32 the firm, or any partner, manager, member, or shareholder thereof, to  
33 practice public accounting in any other state or foreign jurisdiction  
34 for any cause other than failure to pay a fee or to meet the CPE  
35 requirements of the other state or foreign jurisdiction;

36 ~~(3) ((Failure by a nonlicensee owner of a licensed firm to comply  
37 with the requirements of this chapter or board rule; or~~

1       (4)) Failure of the firm to comply with the requirements of this  
2 chapter or board rule.

3       **Sec. 7.** RCW 18.04.345 and 2001 c 294 s 17 are each amended to read  
4 as follows:

5       (1) No person may assume or use the designation "certified public  
6 accountant-inactive" or "CPA-inactive" or any other title, designation,  
7 words, letters, abbreviation, sign, card, or device tending to indicate  
8 that the person is a certified public accountant-inactive or CPA-  
9 inactive unless the person holds a certificate. Persons holding only  
10 a certificate may not practice public accounting.

11       (2) No person may hold himself or herself out to the public or  
12 assume or use the designation "certified public accountant" or "CPA" or  
13 any other title, designation, words, letters, abbreviation, sign, card,  
14 or device tending to indicate that the person is a certified public  
15 accountant or CPA unless the person holds a license under RCW  
16 18.04.215.

17       (3) No firm may hold itself out to the public as offering to issue  
18 or issuing reports on financial statements, or assume or use the  
19 designation "certified public accountant" or "CPA" or any other title,  
20 designation, words, letters, abbreviation, sign, card, or device  
21 tending to indicate that the firm is composed of certified public  
22 accountants or CPAs, unless the firm is licensed under RCW 18.04.195  
23 and all offices of the firm in this state are maintained and registered  
24 under RCW 18.04.205.

25       (4) No person, partnership, limited liability company, or  
26 corporation offering accounting services to the public may hold  
27 himself, herself, or itself out to the public, or assume or use along,  
28 or in connection with his, hers, or its name, or any other name the  
29 title or designation "certified accountant," "chartered accountant,"  
30 "licensed accountant," "licensed public accountant," "public  
31 accountant," or any other title or designation likely to be confused  
32 with "certified public accountant" or any of the abbreviations "CA,"  
33 "LA," "LPA," or "PA," or similar abbreviations likely to be confused  
34 with "CPA."

35       (5) No licensed firm may operate under an alias, a firm name,  
36 title, or "DBA" that differs from the firm name that is registered with  
37 the board.

1 (6) No person may sign, affix, or associate his or her name or any  
2 trade or assumed name used by the person in his or her business to any  
3 report designated as an "audit," "review," or "compilation," unless the  
4 person holds a license to practice under RCW 18.04.215 and a firm  
5 license under RCW 18.04.195, and all of the person's offices in this  
6 state are licensed under RCW 18.04.205.

7 (7) No person may sign, affix, or associate a firm name to any  
8 report designated as an "audit," "review," or "compilation," unless the  
9 firm is licensed under RCW 18.04.195 and 18.04.215, and all of its  
10 offices in this state are maintained and registered under RCW  
11 18.04.205.

12 (8) No person, partnership, limited liability company, or  
13 corporation not holding a license to practice under RCW 18.04.215 may  
14 hold himself, herself, or itself out to the public as an "auditor" with  
15 or without any other description or designation by use of such word on  
16 any sign, card, letterhead, or in any advertisement or directory.

17 (9) No person, partnership, limited liability company, or  
18 corporation holding a license to practice under RCW 18.04.215 may  
19 accept a commission, referral fee, or contingent fee for the  
20 performance of a professional service or the referral of a client to a  
21 product or service.

22 **Sec. 8.** 2001 c 294 s 23 (uncodified) is amended to read as  
23 follows:

24 (1) By December 1, 2002, the board of accountancy shall report to  
25 the senate committee on labor, commerce, and financial institutions and  
26 the house committee on commerce and labor, or successor committees, on  
27 the implementation of ((this act)) the 2001 and 2002 acts, including  
28 but not limited to the provisions ((governing)) prohibiting nonlicensee  
29 owners of CPA firms, protecting the integrity of and public confidence  
30 in the profession of public accounting, and the fiscal impacts of the  
31 legislation.

32 (2) This section does not affect the board's authority to proceed  
33 with implementation of ((this act)) the 2001 and 2002 acts.

34 (3) This section expires January 1, 2003.

35 NEW SECTION. **Sec. 9.** This act is necessary for the immediate  
36 preservation of the public peace, health, or safety, or support of the

1 state government and its existing public institutions, and takes effect  
2 immediately.

--- END ---