

State of Washington

WASHINGTON STATE BOARD OF ACCOUNTANCY

(name of governing body)

(agency name, if applicable)

Resolution No. _____

Administrative Order No. PL-280

(1) Be it resolved by the Washington State Board of Accountancy
acting at Olympia, Washington

(place)
that it does promulgate and adopted the annexed rules relating to:

amending the code of professional conduct for
accountants licensed pursuant to provisions
of Ch. 18.04, RCW, by adopting WAC 4-16-300 through WAC 4-16-410;
repealing WAC 4-16-200 through WAC 4-16-280.

(2) ALTERNATIVE A. Use only for Adoption of Permanent Rules.

This action is taken pursuant to Notice No. 7842 filed with the code reviser on 10-31-77. Such rules shall take effect:

- pursuant to RCW 34.04.040(2).
- at a later date, such date being _____.

(2) ALTERNATIVE B. Use only for Adoption of Emergency Rules.

We, _____, find that an emergency exists and that the foregoing order is necessary for the preservation of the public health, safety, or general welfare and that observance of the requirements of notice and opportunity to present views on the proposed action would be contrary to public interest. A statement of the facts constituting such emergency is:

Such rules are therefore adopted as emergency rules to take effect upon filing with the code reviser.

(3) Pursuant to the requirements of RCW 34.04.____ (1977 c 19 § 2)¹ that "every agency shall incorporate the most specific, but in no case omit all, of the following language alternatives when adopting or amending rules" (fill in statement (a), (b), or (c) as appropriate):

(a) This rule is promulgated pursuant to RCW 18.04.070 and is intended to administratively implement that statute.

(b) This rule is promulgated pursuant to RCW _____ which directs that the

_____ (agency)
has authority to implement the provisions of

_____ (name of act or RCW citation)

(c) This rule is promulgated under the general rule-making authority of the _____ (agency)

as authorized in RCW _____

(4) The undersigned hereby declares that he has complied with the provisions of the Open Public Meetings Act (chapter 42.30 RCW), the Administrative Procedure Act (chapter 34.04 RCW) or the Higher Education Administrative Procedure Act (chapter 28B.19 RCW), as appropriate, and the State Register Act (chapter 34.08 RCW).

(5) This order and its contents recorded in the order register of this governing body is herewith transmitted to the Code Reviser for filing pursuant to chapter 34.04 RCW and chapter 1-12 WAC.

APPROVED AND ADOPTED December 6, 1977

DEC 29 1977

By Donald L. Schoedel

Donald L. Schoedel
Chairman, State Accountancy Board

Title

CODE REVISER'S OFFICE

DOCKET # 874 FILE # 2

STATE OF WASHINGTON
ACCOUNTANCY BOARD

Administrative Order No. PL-280

STATEMENT OF PURPOSE AND IMPLEMENTATION

I. NAME OF AGENCY: Accountancy Board of the State of Washington

DESCRIPTION OF RULES: Amending the code of professional conduct for accountants licensed pursuant to provisions of Ch. 18.04, RCW

STATUTORY AUTHORITY: RCW 18.04.070.

II. SUMMARY OF RULES:

- WAC 4-16-300 Preamble to the code of professional conduct for certified and licensed public accountants
- WAC 4-16-310 Definitions section
- WAC 4-16-320 Guidelines in determining whether a licensee is independent when he or she expresses an opinion on a financial statement
- WAC 4-16-325 Standards for integrity and objectivity of licensees
- WAC 4-16-330 Guidelines with respect to the payment of commissions in the practice of public accountancy
- WAC 4-16-335 Sets forth rules concerning contingent fees
- WAC 4-16-340 Prohibits licensees from engaging in incompatible occupations
- WAC 4-16-345 Requires licensees to perform work in a competent manner
- WAC 4-16-350 Sets forth applicable auditing standards for licensees
- WAC 4-16-355 A licensee must present opinions with respect to financial statements in conformity with generally accepted accounting principles
- WAC 4-16-360 Limits the amount of forecasting a licensee can do with respect to future transactions
- WAC 4-16-370 Prohibits the release of confidential client information
- WAC 4-16-375 Requires the release of certain client records by the licensee
- WAC 4-16-380 Licensee shall not commit acts discreditable to the profession
- WAC 4-16-385 A licensee shall not use another person to perform something that the licensee could not legally do
- WAC 4-16-390 Sets forth guidelines with respect to advertising by licensees
- WAC 4-16-395 Prohibits solicitation by licensees in certain instances

- WAC 4-16-400 Allows licensees to practice in a proprietorship, partnership or professional corporate form
- WAC 4-16-405 Sets guidelines as to the firm names under which licensees may practice
- WAC 4-16-410 Requires licensees to answer, when requested, all written communication from the Board

III. The Accountancy Board and its Chief Executive Officer have sole responsibility for drafting, implementing and enforcing these rules.

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- IV. These rules were proposed by the Board of Accountancy and only one person spoke against implementation to the enactment of one rule (WAC 4-16-390 - Advertising). Approximately thirty-five people attended the rules hearing.
- V. These rules were promulgated pursuant to RCW 18.04.070.

SUBMITTED in accordance with Chapter 84, Laws of 1977, 1st Ex. Sess., this 27TH day of December, 1977.


DONALD L. SCHOEDEL, Chairman
Washington State Board of Accountancy

Chapter 4-16

RULES OF PROFESSIONAL CONDUCT
OF CERTIFIED PUBLIC ACCOUNTANTS, LICENSED PUBLIC
ACCOUNTANTS AND PUBLIC ACCOUNTANTS

WAC

<u>4-16-300</u>	<u>Preamble.</u>
<u>4-16-310</u>	<u>Definitions.</u>
<u>4-16-320</u>	<u>Rule 101-Independence.</u>
<u>4-16-325</u>	<u>Rule 102-Integrity and Objectivity.</u>
<u>4-16-330</u>	<u>Rule 103-Commissions.</u>
<u>4-16-335</u>	<u>Rule 104-Contingent Fees.</u>
<u>4-16-340</u>	<u>Rule 105-Incompatible Occupations.</u>
<u>4-16-345</u>	<u>Rule 201-Competence.</u>
<u>4-16-350</u>	<u>Rule 202-Auditing Standards.</u>
<u>4-16-355</u>	<u>Rule 203-Accounting Principles.</u>
<u>4-16-360</u>	<u>Rule 204-Forecasts.</u>
<u>4-16-370</u>	<u>Rule 301-Confidential Client Information.</u>
<u>4-16-375</u>	<u>Rule 302-Records.</u>
<u>4-16-380</u>	<u>Rule 401-Discreditable Acts.</u>
<u>4-16-385</u>	<u>Rule 402-Acting Through Others.</u>
<u>4-16-390</u>	<u>Rule 403-Advertising.</u>
<u>4-16-395</u>	<u>Rule 404-Solicitation.</u>
<u>4-16-400</u>	<u>Rule 405-Form of Practice.</u>
<u>4-16-405</u>	<u>Rule 406-Firm Names.</u>
<u>4-16-410</u>	<u>Rule 407-Communications.</u>

NEW SECTION

WAC 4-16-300 PREAMBLE. This code of professional conduct is promulgated under the authority granted by RCW 18.04.070 of the Public Accounting Act of 1949, which delegates to the Board of Accountancy of the State of Washington the power to promulgate and amend rules of professional conduct appropriate to establish and maintain a high standard of integrity and dignity in the profession of public accountancy.

The rules of conduct set out below rest upon the premises that the reliance of the public in general and of the business community in particular on sound financial reporting, and on the implication of professional competence which inheres in

the authorized use of a legally restricted title relating to the practice of public accountancy, imposes on persons engaged in such practice certain obligations both to their clients and to the public. These obligations, which the rules of conduct are intended to enforce where necessary, include the obligation to maintain independence of thought and action, to strive continuously to improve one's professional skills, to observe, where applicable, generally accepted accounting principles and generally accepted auditing standards, to promote sound and informative financial reporting, to hold the affairs of clients in confidence, to uphold the standards of the public accountancy profession, and to maintain high standards of personal conduct in all matters affecting one's fitness to practice public accountancy.

Acceptance of licensure to engage in the practice of public accountancy or to use titles which imply a particular competence so to engage involves acceptance by the licensee of such obligations, and accordingly, of a duty to abide by the rules of conduct.

The rules of conduct are intended to have application to all kinds of professional services performed in the practice of public accountancy, including tax and management advisory services, and to apply as well to all licensees, whether or not engaged in the practice of public accountancy, except where the wording of a rule clearly indicates that the applicability is more limited.

A licensee who is engaged in the practice of public accountancy outside the United States will not be subject to discipline by the board for departing, with respect to such foreign practice, from any of the rules, so long as his conduct is in accordance with the standards of professional conduct applicable to the practice of public accountancy in the country in which he is practicing. However, even in such a case, if a licensee's name is associated with financial statements in such manner as to imply that he is acting as an independent public accountant and under circumstances that would entitle the reader to assume that United States practices are followed, he will be expected to comply with Rules 202 and 203.

In the interpretation and enforcement of the rules of conduct, the board will give consideration, but not necessarily dispositive weight, to relevant interpretations, rulings and opinions issued by the board of other jurisdictions, and by appropriately authorized committees on ethics of professional organizations.

NEW SECTION

WAC 4-16-310 DEFINITIONS. For purposes of these rules, the following terms have the meanings indicated:

(1) Board. Board of Accountancy of the State of Washington.

(2) Client. The person or entity which retains a licensee for the performance of professional services.

(3) Enterprise. Any person or entity, whether organized for profit or not, with respect to which a licensee performs professional services.

(4) Firm. A proprietorship, partnership or professional corporation engaged in the practice of public accountancy.

(5) Financial statements. Statements and footnotes related thereto that purport to show financial position that relates to a point in time or changes in financial position that relate to a period of time, including statements that use a cash or other incomplete basis of accounting. The term includes balance sheets, statements of income, statements of retained earnings, statements of changes in financial position and statements of changes in owners' equity, but does not include incidental financial data included in management advisory services reports to support recommendations to a client, nor does it include tax returns and supporting schedules.

(6) He, his, him. Masculine pronouns when used herein also include the feminine and the neuter.

(7) Licensee. A person holding a certificate issued by the board or registered by the board or holding a permit to practice, pursuant to the Public Accounting Act of 1949, and a firm registered with the board or holding a permit to practice, pursuant to the Public Accounting Act of 1949. The term includes each firm of which a licensee is a partner, officer or shareholder, and each partner, officer or shareholder of a firm that is a licensee.

(8) Practice of public accountancy. Offering to perform or performing for a client one or more types of services involving the use of accounting or auditing skills or one or more types of management advisory or consulting services or the preparation of tax returns or the furnishing of advice on tax matters while holding oneself out in such manner as to state or imply that one is a licensee.

(9) Professional services. Any services performed or offered to be performed by a licensee for a client in the course of the practice of public accountancy.

(10) Public communication. A communication made in identical form to multiple persons or to the world at large, as by television, radio, motion picture, newspaper, pamphlet, mass mailing, letterhead, business card or directory.

NEW SECTION

WAC 4-16-320 RULE 101-INDEPENDENCE. A licensee shall not express an opinion on financial statements of an enterprise in such a manner as to imply that he is acting as an independent public accountant with respect thereto unless he is independent with respect to such enterprise. Independence will be considered to be impaired if, for example:

(1) During the period of his professional engagement, or at the time of expressing his opinion, the licensee:

(a) Had or was committed to acquire any direct or material indirect financial interest in the enterprise; or

(b) Was a trustee of any trust or executor or administrator of any estate if such trust or estate had or was committed to acquire any direct or material indirect financial interest in the enterprise; or

(c) Had any joint closely held business investment with the enterprise or any officer, director or principal stockholder thereof that was material in relation to the net worth of either the licensee or the enterprise; or

(d) Had any loan to or from the enterprise or any officer, director or principal stockholder thereof other than loans of the following kinds made by a financial institution under normal lending procedures, terms and requirements:

(i) Loans obtained by the licensee which are not material in relation to the net worth of the borrower; and

(ii) Home mortgages; and

(iii) Other secured loans, except those secured solely by a guarantee of the licensee.

(2) During the period covered by the financial statements, during the period of the professional engagement, or at the time of expressing an opinion, the licensee:

(a) Was connected with the enterprise as a promoter, underwriter or voting trustee, a director or officer or in any capacity equivalent to that of a member of management or of an employee; or

(b) Was a trustee for any pension or profit-sharing trust of the enterprise.

The foregoing examples are not intended to be all inclusive.

NEW SECTION

WAC 4-16-325 RULE 102-INTEGRITY AND OBJECTIVITY. A licensee shall not in the performance of professional services knowingly misrepresent facts, nor subordinate his judgment to others. In tax practice, however, a licensee may resolve doubt in favor of his client as long as there is reasonable support for his position.

NEW SECTION

WAC 4-16-330 RULE 103-COMMISSIONS. A licensee shall not pay a commission to obtain a client, nor accept a commission for a referral to a client of products or services of others. This rule does not prohibit payments for the purchase of all, or a material part, of an accounting practice, or retirement payments to persons formerly engaged in the practice of public accountancy or payments to the heirs or estates of such persons.

NEW SECTION

WAC 4-16-335 RULE 104-CONTINGENT FEES. A licensee shall not offer or perform professional services for a fee which is contingent upon the findings or results of such services; provided, however, that this rule does not apply to professional services involving federal, state or other taxes in which the findings are those of the tax authorities and not those of the licensee, nor does it apply to professional services for which the fees are to be fixed by courts or other public authorities, and which are, therefore, indeterminate in amount at the time the professional services are undertaken.

NEW SECTION

WAC 4-16-340 RULE 105-INCOMPATIBLE OCCUPATIONS. A licensee shall not concurrently engage in the practice of public accountancy and in any other business or occupation which impairs his independence or objectivity in rendering professional services.

NEW SECTION

WAC 4-16-345 RULE 201-COMPETENCE. A licensee shall not undertake any engagement for the performance of professional services that he cannot reasonably expect to complete with due professional competence, including compliance, where applicable, with Rules 202 and 203.

NEW SECTION

WAC 4-16-350 RULE 202-AUDITING STANDARDS. A licensee shall not permit his name to be associated with financial statements in such a manner as to imply that he is acting as an independent public accountant with respect to such financial statements unless he has complied with applicable generally accepted auditing standards. Statements on auditing standards issued by the American Institute of Certified Public Accountants and other pronouncements having similar generally recognized authority are considered to be interpretations of generally accepted auditing standards, and departures therefrom must be justified by those who do not follow them.

NEW SECTION

WAC 4-16-355 RULE 203-ACCOUNTING PRINCIPLES. A licensee shall not express an opinion that financial statements are presented in conformity with generally accepted accounting

principles if such financial statements contain any departure from such accounting principles that has a material effect on the financial statements taken as a whole, unless the licensee can demonstrate that by reason of unusual circumstances the financial statements would otherwise have been misleading. In such a case, the licensee's report must describe the departure, the approximate effects thereof, if practicable, and the reasons why compliance with the principle would result in a misleading statement. For purposes of this rule, generally accepted accounting principles are considered to be defined by pronouncements issued by the Financial Accounting Standards Board and its predecessor entities and similar pronouncements issued by other entities having similar generally recognized authority.

NEW SECTION

WAC 4-16-360 RULE 204-FORECASTS. A licensee shall not in the performance of professional services permit his name to be used in conjunction with any forecast of future transactions in a manner that may reasonably lead to the belief that the licensee vouches for the achievability of the forecast.

NEW SECTION

WAC 4-16-370 RULE 301-CONFIDENTIAL CLIENT INFORMATION. A licensee shall not without the consent of his client disclose any confidential information pertaining to his client obtained in the course of performing professional services.

This rule does not (a) relieve a licensee of any obligations under Rules 202 and 203, or (b) affect in any way a licensee's obligation to comply with a validly issued subpoena or summons enforceable by order of a court, or (c) prohibit disclosures in the course of a quality review of a licensee's professional services, or (d) preclude a licensee from responding to any inquiry made by the board or any investigative or disciplinary body established by law or formally recognized by the board.

Members of the board and professional practice reviewers shall not disclose any confidential client information that comes to their attention from licensees in disciplinary proceedings or otherwise in carrying out their responsibilities, except that they may furnish such information to an investigative or disciplinary body of the kind referred to above.

NEW SECTION

WAC 4-16-375 RULE 302-RECORDS. A licensee shall furnish to his client or former client, upon request made within a reasonable time after original issuance of the document in question:

- (1) A copy of a tax return of the client; and
- (2) A copy of any report or other document issued by

the licensee to or for such client; and

(3) Any accounting or other records belonging to, or obtained from or on behalf of, the client that the licensee removed from the client's premises or received for the client's account, but the licensee may make and retain copies of such documents when they form the basis for work done by him; and

(4) A copy of the licensee's working papers, to the extent that such working papers include records that would ordinarily constitute part of the client's books and records and are not otherwise available to the client.

NEW SECTION

WAC 4-16-380 RULE 401-DISCREDITABLE ACTS. A licensee shall not commit any act that reflects adversely on his fitness to engage in the practice of public accountancy.

NEW SECTION

WAC 4-16-385 RULE 402-ACTING THROUGH OTHERS. A licensee shall not permit others to carry out on his behalf, either with or without compensation, acts which, if carried out by the licensee, would place him in violation of the rules of conduct.

NEW SECTION

WAC 4-16-390 RULE 403-ADVERTISING. A licensee shall not use or participate in the use of any form of public communication having reference to his professional services that contains a false, fraudulent, misleading, deceptive or unfair statement or claim. A false, fraudulent, misleading, deceptive or unfair statement or claim includes, but is not limited to, a statement or claim that:

- (1) Contains a misrepresentation of fact; or
- (2) Is likely to mislead or deceive because it fails to make full disclosure of relevant facts; or
- (3) Contains any testimonial or laudatory statement or other statement or implication that the licensee's professional services are of exceptional quality; or
- (4) Is intended or likely to create false or unjustified expectations of favorable results; or
- (5) Implies educational or professional attainments or licensing recognition not supported in fact; or
- (6) States or implies that the licensee has received formal recognition as a specialist in any aspect of the practice of public accountancy, if this is not the case; or
- (7) Represents that professional services can or will be competently performed for a stated fee when this is not the case or makes representations with respect to fees for professional services that do not disclose all variables affecting the fees that will in fact be charged; or

(8) Contains other representations or implications that in reasonable probability will cause an ordinarily prudent person to misunderstand or be deceived.

NEW SECTION

WAC 4-16-395 RULE 404-SOLICITATION. A licensee shall not by any direct personal communication solicit an engagement to perform professional services (a) if the communication would violate Rule 403 if it were a public communication; or (b) by the use of coercion, duress, compulsion, intimidation, threats, overreaching, or vexatious or harassing conduct; or (c) where the engagement would be for a person or entity not already a client of the licensee, unless such person or entity has invited such a communication or is seeking to secure the performance of professional services and has not yet engaged another to perform them.

NEW SECTION

WAC 4-16-400 RULE 405-FORM OF PRACTICE. A licensee may practice public accountancy only in a proprietorship, a partnership or a professional corporation whose characteristics conform to the Public Accounting Act of 1949.

NEW SECTION

WAC 4-16-405 RULE 406-FIRM NAMES. A licensee shall not practice public accountancy under a firm name that is misleading in any way as to the legal form of the firm or as to the persons who are partners, officers or shareholders of the firm or as to any matter with respect to which public communications are restricted by Rule 403. However, names of one or more past partners or shareholders may be included in the firm name of a partnership or corporation or its successor, and a partner surviving the death or withdrawal of all other partners may continue to practice under a partnership name for up to two years after becoming a sole practitioner.

NEW SECTION

WAC 4-16-410 RULE 407-COMMUNICATIONS. A licensee shall, when requested, respond to communications from the board within thirty days of the mailing by the board of such communications by registered or certified mail.

REPEALER

The following sections of the Washington Administrative Code are each repealed:

- (1) WAC 4-16-200 DEFINITIONS.
- (2) WAC 4-16-205 APPLICABILITY OF RULES.
- (3) WAC 4-16-210 INDEPENDENCE-RULE 101.
- (4) WAC 4-16-215 INTEGRITY AND OBJECTIVITY-RULE 102.
- (5) WAC 4-16-220 COMPETENCE-RULE 201.
- (6) WAC 4-16-225 AUDITING STANDARDS-RULE 202.
- (7) WAC 4-16-230 ACCOUNTING PRINCIPLES-RULE 203.
- (8) WAC 4-16-235 FORECASTS-RULE 204.
- (9) WAC 4-16-240 CONFIDENTIAL CLIENT INFORMATION-RULE 301.
- (10) WAC 4-16-245 CONTINGENT FEES-RULE 302.
- (11) WAC 4-16-250 ENCROACHMENT-RULE 401.
- (12) WAC 4-16-255 OFFERS OF EMPLOYEMNT-RULE 402.
- (13) WAC 4-16-260 ACTS DISCREDITABLE-RULE 501.
- (14) WAC 4-16-265 SOLICITATION AND ADVERTISING-RULE 502.
- (15) WAC 4-16-270 COMMISSIONS-RULE 503.
- (16) WAC 4-16-275 INCOMPATIBLE OCCUPATIONS-RULE 504.
- (17) WAC 4-16-280 FORM OR PRACTICE AND NAME-RULE 505.