
SENATE BILL 5773

State of Washington

58th Legislature

2003 Regular Session

By Senators Carlson, Zarelli and Esser

Read first time 02/11/2003. Referred to Committee on Financial Services, Insurance & Housing.

1 AN ACT Relating to accountability requirements under the public
2 accountancy act; amending RCW 18.04.195, 18.04.215, 18.04.295,
3 18.04.390, and 18.04.370; creating a new section; prescribing
4 penalties; and providing an expiration date.

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

6 **Sec. 1.** RCW 18.04.195 and 2001 c 294 s 11 are each amended to read
7 as follows:

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

12 (a) The sole proprietor shall hold a license to practice under RCW
13 18.04.215;

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

16 (c) The licensed firm must meet competency requirements established
17 by rule by the board.

18 (2) A partnership engaged in business in this state and offering to

1 issue or issuing reports on financial statements or using the title CPA
2 or certified public accountant shall license as a firm every three
3 years with the board, and shall meet the following requirements:

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

6 (b) Each resident person in charge of an office in this state shall
7 hold a license to practice under RCW 18.04.215;

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

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

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

23 (a) A simple majority of the ownership of the licensed firm in
24 terms of financial interests and voting rights of all shareholders or
25 owners shall be held by natural persons who are licensees or holders of
26 a valid license issued under this chapter or by another state that
27 entitles the holder to practice public accounting in this state and is
28 principally employed by the corporation or actively engaged in its
29 business. The principal officer of the corporation and any officer or
30 director having authority over issuing reports on financial statements
31 shall hold a license under this chapter or issued by another state that
32 entitles the holder to practice public accounting in this state;

33 (b) At least one shareholder of the corporation shall hold a
34 license under RCW 18.04.215;

35 (c) Each resident person in charge of an office located in this
36 state shall hold a license under RCW 18.04.215;

37 (d) A written agreement shall bind the corporation or its
38 shareholders to purchase any shares offered for sale by, or not under

1 the ownership or effective control of, a qualified shareholder, and
2 bind any holder not a qualified shareholder to sell the shares to the
3 corporation or its qualified shareholders. The agreement shall be
4 noted on each certificate of corporate stock. The corporation may
5 purchase any amount of its stock for this purpose, notwithstanding any
6 impairment of capital, as long as one share remains outstanding;

7 (e) The corporation shall comply with any other rules pertaining to
8 corporations practicing public accounting in this state as the board
9 may prescribe; and

10 (f) The licensed firm must meet competency requirements established
11 by rule by the board.

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

17 (a) At least one member of the limited liability company shall hold
18 a license under RCW 18.04.215;

19 (b) Each resident manager or member in charge of an office located
20 in this state shall hold a license under RCW 18.04.215;

21 (c) A simple majority of the ownership of the licensed firm in
22 terms of financial interests and voting rights of all owners shall be
23 held by natural persons who are licensees or holders of a valid license
24 issued under this chapter or by another state that entitles the holder
25 to practice public accounting in this state. The principal member or
26 manager of the limited liability company and any member having
27 authority over issuing reports on financial statements shall hold a
28 license under this chapter or issued by another state that entitles the
29 holder to practice public accounting in this state; and

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

32 (5) Application for a license as a firm shall be made upon the
33 affidavit of the proprietor or person designated as managing partner,
34 member, or shareholder for Washington. This person shall hold a
35 license under RCW 18.04.215. The board shall determine in each case
36 whether the applicant is eligible for a license. A partnership,
37 corporation, or limited liability company which is licensed to practice
38 under RCW 18.04.215 may use the designation "certified public

1 accountants" or "CPAs" in connection with its partnership, limited
2 liability company, or corporate name. The board shall be given
3 notification within ninety days after the admission or withdrawal of a
4 partner, shareholder, or member engaged in this state in the practice
5 of public accounting from any partnership, corporation, or limited
6 liability company so licensed.

7 (6) Licensed firms which fall out of compliance with the provisions
8 of this section due to changes in firm ownership or personnel, after
9 receiving or renewing a license, shall notify the board in writing
10 within (~~thirty~~) ninety days of its falling out of compliance and
11 propose a time period in which they will come back into compliance.
12 The board may grant a reasonable period of time for a firm to be in
13 compliance with the provisions of this section. Failure to bring the
14 firm into compliance within a reasonable period of time, as determined
15 by the board, may result in suspension, revocation, or imposition of
16 conditions on the firm's license.

17 (7) Fees for the license as a firm and for notification of the
18 board of the admission or withdrawal of a partner, shareholder, or
19 member shall be determined by the board. Fees shall be paid by the
20 firm at the time the license application form or notice of admission or
21 withdrawal of a partner, shareholder, or member is filed with the
22 board.

23 (8) Nonlicensee owners of licensed firms are:

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

26 (b) Required to be a natural person;

27 (c) Required to be an active individual participant in the licensed
28 firm or affiliated entities as these terms are defined by board rule;
29 and

30 (d) Subject to discipline by the board for violation of this
31 chapter.

32 (9) Resident nonlicensee owners of licensed firms are required to
33 meet:

34 (a) The ethics examination, registration, and fee requirements as
35 established by the board rules; and

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

37 (10)(a) Licensed firms must notify the board within thirty days
38 after:

1 (i) Sanction, suspension, revocation, or modification of their
2 professional license or practice rights by the securities exchange
3 commission, internal revenue service, or another state board of
4 accountancy;

5 (ii) Sanction or order against the licensee or nonlicensee firm
6 owner by any federal or other state agency related to the licensee's
7 practice of public accounting or violation of ethical or technical
8 standards established by board rule; or

9 (iii) The licensed firm is notified of any investigation by a
10 federal or other state agency, as identified by board rule, related to
11 the firm's professional license, practice rights, or violation of
12 ethical or technical standards established by board rule.

13 (b) The board must adopt rules to implement this subsection and may
14 also adopt rules specifying requirements for licensees to report to the
15 board sanctions or orders relating to the licensee's practice of public
16 accounting or violation of ethical or technical standards entered
17 against the licensee by a nongovernmental professionally related
18 standard-setting entity.

19 **Sec. 2.** RCW 18.04.215 and 2001 c 294 s 13 are each amended to read
20 as follows:

21 (1) Three-year licenses shall be issued by the board:

22 (a) To persons meeting the requirements of RCW 18.04.105(1),
23 18.04.180, or 18.04.183.

24 (b) To certificate holders meeting the requirements of RCW
25 18.04.105(4).

26 (c) To firms under RCW 18.04.195, meeting the requirements of RCW
27 18.04.205.

28 (2) The board shall, by rule, provide for a system of certificate
29 and license renewal and reinstatement. Applicants for renewal or
30 reinstatement shall, at the time of filing their applications, list
31 with the board all states and foreign jurisdictions in which they hold
32 or have applied for certificates, permits or licenses to practice.

33 (3) An inactive certificate is renewed every three years with
34 renewal subject to the requirements of ethics CPE and the payment of
35 fees, prescribed by the board. Failure to renew the inactive
36 certificate shall cause the inactive certificate to lapse and be

1 subject to reinstatement. The board shall adopt rules providing for
2 fees and procedures for renewal and reinstatement of inactive
3 certificates.

4 (4) A license is issued every three years with renewal subject to
5 requirements of CPE and payment of fees, prescribed by the board.
6 Failure to renew the license shall cause the license to lapse and
7 become subject to reinstatement. Persons holding a lapsed license are
8 prohibited from using the title "CPA" or "certified public accountant."
9 Persons holding a lapsed license are prohibited from practicing public
10 accountancy. The board shall adopt rules providing for fees and
11 procedures for issuance, renewal, and reinstatement of licenses.

12 (5) The board shall adopt rules providing for CPE for licensees and
13 certificate holders. The rules shall:

14 (a) Provide that a licensee shall verify to the board that he or
15 she has completed at least an accumulation of one hundred twenty hours
16 of CPE during the last three-year period to maintain the license;

17 (b) Establish CPE requirements; and

18 (c) Establish when new licensees shall verify that they have
19 completed the required CPE.

20 (6) A certified public accountant who holds a license issued by
21 another state, and applies for a license in this state, may practice in
22 this state from the date of filing a completed application with the
23 board, until the board has acted upon the application provided the
24 application is made prior to holding out as a certified public
25 accountant in this state and no sanctions or investigations, deemed by
26 the board to be pertinent to public accountancy, by other jurisdictions
27 or agencies are in process.

28 (7) A licensee shall submit to the board satisfactory proof of
29 having completed an accumulation of one hundred twenty hours of CPE
30 recognized and approved by the board during the preceding three years.
31 Failure to furnish this evidence as required shall make the license
32 lapse and subject to reinstatement procedures, unless the board
33 determines the failure to have been due to retirement or reasonable
34 cause.

35 The board in its discretion may renew a certificate or license
36 despite failure to furnish evidence of compliance with requirements of
37 CPE upon condition that the applicant follow a particular program of
38 CPE. In issuing rules and individual orders with respect to CPE

1 requirements, the board, among other considerations, may rely upon
2 guidelines and pronouncements of recognized educational and
3 professional associations, may prescribe course content, duration, and
4 organization, and may take into account the accessibility of CPE to
5 licensees and certificate holders and instances of individual hardship.

6 (8) Fees for renewal or reinstatement of certificates and licenses
7 in this state shall be determined by the board under this chapter.
8 Fees shall be paid by the applicant at the time the application form is
9 filed with the board. The board, by rule, may provide for proration of
10 fees for licenses or certificates issued between normal renewal dates.

11 (9)(a) Licensees, certificate holders, and nonlicensee owners must
12 notify the board within thirty days after:

13 (i) Sanction, suspension, revocation, or modification of their
14 professional license or practice rights by the securities exchange
15 commission, internal revenue service, or another state board of
16 accountancy;

17 (ii) Sanction or order against the licensee, certificate holder, or
18 nonlicensee owner by any federal or other state agency related to the
19 licensee's practice of public accounting or the licensee's, certificate
20 holder's, or nonlicensee owner's violation of ethical or technical
21 standards established by board rule; or

22 (iii) The licensee, certificate holder, or nonlicensee owner is
23 notified of any investigation by a federal or other state agency, as
24 identified by board rule, related to the licensee's, certificate
25 holder's, or nonlicensee owner's professional license, practice rights,
26 or violation of ethical or technical standards established by board
27 rule.

28 (b) The board must adopt rules to implement this subsection and may
29 also adopt rules specifying requirements for licensees, certificate
30 holders, and nonlicensee owners to report to the board sanctions or
31 orders relating to the licensee's practice of public accounting or the
32 licensee's, certificate holder's, or nonlicensee owner's violation of
33 ethical or technical standards entered against the licensee,
34 certificate holder, or nonlicensee owner by a nongovernmental
35 professionally related standard-setting entity.

36 **Sec. 3.** RCW 18.04.295 and 2001 c 294 s 14 are each amended to read
37 as follows:

1 The board shall have the power to: Revoke, suspend, refuse to
2 renew, or reinstate a license or certificate; impose a fine in an
3 amount not to exceed (~~ten~~) thirty thousand dollars plus the board's
4 investigative and legal costs in bringing charges against a certified
5 public accountant, a certificate holder, a licensee, a licensed firm,
6 or a nonlicensee holding an ownership interest in a licensed firm; may
7 impose full restitution to injured parties; may impose conditions
8 precedent to renewal of a certificate or a license; or may prohibit a
9 nonlicensee from holding an ownership interest in a licensed firm, for
10 any of the following causes:

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

13 (2) Dishonesty, fraud, or negligence while representing oneself as
14 a nonlicensee owner holding an ownership interest in a licensed firm,
15 a licensee, or a certificate holder;

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

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

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

20 (a) The laws of this state;

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

23 (c) Federal law;

24 (6) Cancellation, revocation, suspension, or refusal to renew the
25 authority to practice as a certified public accountant by any other
26 state for any cause other than failure to pay a fee or to meet the
27 requirements of CPE in the other state;

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

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

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

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

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

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

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

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

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

9 **Sec. 4.** RCW 18.04.390 and 2001 c 294 s 21 are each amended to read
10 as follows:

11 (1) In the absence of an express agreement between the licensee or
12 licensed firm and the client to the contrary, all statements, records,
13 schedules, working papers, and memoranda made by a licensee or licensed
14 firm incident to or in the course of professional service to clients,
15 except reports submitted by a licensee or licensed firm, are the
16 property of the licensee or licensed firm.

17 (2) No statement, record, schedule, working paper, or memorandum
18 may be sold, transferred, or bequeathed without the consent of the
19 client or his or her personal representative or assignee, to anyone
20 other than one or more surviving partners, shareholders, or new
21 partners or new shareholders of the licensee, partnership, limited
22 liability company, or corporation, or any combined or merged
23 partnership, limited liability company, or corporation, or successor in
24 interest.

25 (3) A licensee shall furnish to the board or to his or her client
26 or former client, upon request and reasonable notice:

27 (a) A copy of the licensee's working papers or electronic
28 documents, to the extent that such working papers or electronic
29 documents include records that would ordinarily constitute part of the
30 client's records and are not otherwise available to the client; and

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

36 (4) ~~((Nothing in this section shall require a licensee to keep any
37 work paper or electronic document beyond the period prescribed in any~~

1 ~~other applicable statute))~~ (a) For a period of seven years after the
2 end of the fiscal period in which a licensed firm concludes an audit or
3 review of a client's financial statements, the licensed firm must
4 retain records relevant to the audit or review, as determined by board
5 rule.

6 (b) The board must adopt rules to implement this subsection,
7 including rules relating to working papers and document retention.

8 (5) Nothing in this section should be construed as prohibiting any
9 temporary transfer of workpapers or other material necessary in the
10 course of carrying out peer reviews or as otherwise interfering with
11 the disclosure of information pursuant to RCW 18.04.405.

12 **Sec. 5.** RCW 18.04.370 and 2001 c 294 s 19 are each amended to read
13 as follows:

14 (1) Any person who violates any provision of this chapter, shall be
15 guilty of a crime, as follows:

16 (a) Any person who violates any provision of this chapter is guilty
17 of a misdemeanor, and upon conviction thereof, shall be subject to a
18 fine of not more than (~~ten~~) thirty thousand dollars, or to
19 imprisonment for not more than six months, or to both such fine and
20 imprisonment.

21 (b) Notwithstanding (a) of this subsection, any person who uses a
22 professional title intended to deceive the public, in violation of RCW
23 18.04.345, having previously entered into a stipulated agreement and
24 order of assurance with the board, is guilty of a felony, and upon
25 conviction thereof, is subject to a fine of not more than (~~ten~~)
26 thirty thousand dollars, or to imprisonment for not more than two
27 years, or to both such fine and imprisonment.

28 (2) With the exception of first time violations of RCW 18.04.345,
29 subject to subsection (3) of this section whenever the board has reason
30 to believe that any person is violating the provisions of this chapter
31 it shall certify the facts to the prosecuting attorney of the county in
32 which such person resides or may be apprehended and the prosecuting
33 attorney shall cause appropriate proceedings to be brought against such
34 person.

35 (3) The board may elect to enter into a stipulated agreement and
36 orders of assurance with persons in violation of RCW 18.04.345 who have

1 not previously been found to have violated the provisions of this
2 chapter. The board may order full restitution to injured parties as a
3 condition of a stipulated agreement and order of assurance.

4 (4) Nothing herein contained shall be held to in any way affect the
5 power of the courts to grant injunctive or other relief as above
6 provided.

7 NEW SECTION. **Sec. 6.** (1) By December 1, 2003, the board of
8 accountancy shall report to the senate committee on commerce and trade
9 and the house committee on commerce and labor, or successor committees,
10 on the issue of auditor independence.

11 (2) This section expires January 1, 2004.

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