

# SENATE BILL REPORT

## ESHB 2433

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As of February 23, 2016

**Title:** An act relating to certified public accountant firm mobility.

**Brief Description:** Concerning certified public accountant firm mobility.

**Sponsors:** House Committee on Business & Financial Services (originally sponsored by Representatives Vick, Kirby and Goodman).

**Brief History:** Passed House: 2/11/16, 96-0.

**Committee Activity:** Commerce & Labor: 2/24/16.

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### SENATE COMMITTEE ON COMMERCE & LABOR

**Staff:** Jarrett Sacks (786-7448)

**Background:** The Public Accountancy Act (Act) governs the practice of accounting in Washington. Under the Act, both accountants and accounting firms must be licensed to hold themselves out as "certified public accountants" or "CPAs." The Board of Accountancy (Board) issues licenses, adopts rules, conducts investigations, and otherwise administers the Act. CPAs and CPA firms perform various services that, depending on the service, must meet certain professional standards. The Board conducts a quality assurance review (QAR) program to review the work of licensees and out-of-state CPAs with practice privileges in Washington.

CPA Firm Mobility. In 2008, the Legislature authorized individual CPAs from outside of Washington to have all the practice privileges as licensed CPAs in Washington, without having to obtain a license from the Board, if the individual holds a CPA license in a state with substantially equivalent standards to Washington.

Any firm in Washington State that performs attest or compilation services, or uses the title "CPA" or "CPA firm," must obtain a license from the Board.

In Washington State, CPA firms must meet the following requirements for licensure:

- at least a simple majority of the ownership of the CPA firm must hold a CPA license and be principally employed by the CPA firm or be actively engaged in its business;
- the principal partner, officer, member, or manager of the partnership, corporation, or LLC who has authority over issuing reports must hold a CPA license;

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- the CPA firm must meet the Board's QAR program requirements; and
- the CPA firm must meet the Board's competency requirements.

A CPA firm that does not have an office in Washington must hold a CPA license issued by the Board if it performs any of the following attest services for clients in Washington:

- audits or other engagements to be performed in accordance with the Statements on Auditing Standards;
- examinations of prospective financial information to be performed in accordance with the Statements on Standards for Attestation Engagements; and
- engagements to be performed in accordance with the Public Company Accounting Oversight Board Auditing Standards.

Out-of-state CPA firms may perform compilation and other services without obtaining a license if the firm meets QAR program requirements, the services are provided by an individual CPA with practice privileges in Washington, and the Board has jurisdiction over the out-of-state firm.

Attestation. Under the Act, "attest" means providing the following financial statement services:

- audits or other engagements to be performed in accordance with the Statements on Auditing Standards;
- reviews of a financial statement to be provided in accordance with the Statements on Standards for Accounting and Review Services;
- examinations of prospective financial information to be performed in accordance with the Statements on Standards for Attestation Engagements; and
- engagements to be performed in accordance with the Public Company Accounting Oversight Board Auditing Standards.

Reports. The Act defines the term "reports on financial statements" as any reports or opinions prepared by licensees or persons holding practice privileges under substantial equivalency, based on services performed in accordance with Generally Accepted Auditing Standards, Standards for Attestation Engagements, or Standards for Accounting and Review Services as to whether the presentation of information used for guidance in financial transactions or for accounting for or assessing the status or performance of commercial and noncommercial enterprises, whether public, private, or governmental, conforms with generally accepted accounting principles or another comprehensive basis of accounting.

Unlicensed Owners of Licensed CPA Firms. A person who is not a licensed CPA but who is an owner of a CPA firm must:

- comply with the Act and Board rules;
- be an individual - not a corporation or other entity;
- be an active individual participant in the licensed CPA firm or affiliated entities; and
- be subject to discipline by the Board.

Additionally, resident, non-CPA owners of licensed CPA firms must meet the ethics examination, registration, fee requirements, and the ethics Continuing Professional Education requirements established by the Board.

**Summary of Bill:** CPA Firm Mobility. Firms that do not have offices in Washington State may offer or render attest or compilation services if:

- at least a simple majority of the ownership of the firm hold a CPA license and are principally employed by the CPA firm or actively engaged in its business;
- the principal partner, officer, member, or manager who has authority to issue reports holds a CPA license;
- the firm meets the Board's QAR program requirements;
- the firm performs attest services through an individual with practice privileges in Washington State; and
- the individual with practice privileges can lawfully perform attest services in the state where the firm has its principal place of business.

As a condition of granting an out-of-state CPA firm practice privileges in Washington and not requiring licensure by the Board, the out-of-state CPA firm consents to the personal and subject matter jurisdiction and disciplinary authority of the Board, it must comply with Washington State law and rules, and it must appoint its home-state licensing board as its agent upon whom process may be served in any action or proceeding by the Board against it.

Additionally, an out-of-state CPA firm may perform compilation services and other non-attest professional services in Washington without a license while using the title "CPA" or "CPA firm" if the firm performs such services through individual CPAs with practice privileges in Washington and the firm can lawfully do so in the state where the individual CPAs with practice privileges have their principal place of business. The existing requirement that an out-of-state CPA firm performing only compilation services in Washington must comply with the Board's QAR program is removed.

An individual has practice privileges in Washington State if the individual has a CPA license from a state that imposes standards substantially equivalent to Washington, or the individual has a license from another state and has qualifications similar to those that meet Washington State standards.

An individual with practice privileges can only perform attest services in this state through a licensed firm, or a firm that meets the above out-of-state requirements.

Attestation. The definition of "attest" is changed to mean providing any of the following services:

- audits or engagements to be performed in accordance with statements on auditing standards;
- reviews of a financial statement to be provided in accordance with the statements on standards for accounting and review services;
- engagements to be performed in accordance with the statements on standards for attestation engagements; and
- engagements to be performed in accordance with the public company accounting oversight board auditing standards.

Reports. The term "reports on financial statements" is replaced by the word "report," which is defined, in reference to attestation and compilation services, to mean an opinion, report, or other form of language that:

- states or implies assurance as to the reliability of the attested information or compiled financial statements; and
- includes, or is accompanied by, any statement or implication that the person or firm issuing it has special knowledge or competence in the practice of public accounting.

Such a statement or implication of special knowledge or competence may arise from indicating that the issuer of the report is involved in the practice of public accounting, or from the language of the report itself.

Services Not Requiring Licensure. Nothing in the Act prohibits any person or firm composed of people not holding a CPA license from offering or rendering to the public bookkeeping, accounting, tax services, consulting services, or similar services, so long as such non-CPAs do not designate any written statement as a "report" as defined in the Act or use any language in any statement relating to the financial affairs of a person or entity that is conventionally used by CPAs in reports or any attest services as defined in the Act.

Likewise, nothing in the Act prohibits any person or firm composed of people not holding a CPA license from offering or rendering to the public the services of preparation of financial statements, or written statements describing how financial statements were prepared, so long as such non-CPAs do not designate any written statement as a "report" as defined in the Act, issue any written statement that purports to express or disclaim an opinion on financial statements that have been audited, or issue any written statement that expresses assurance on reviewed financial statements. The Board may prescribe, by rule, language for the written statement describing how such financial statements were prepared, for use by non-CPAs offering such services.

Unlicensed Owners of Licensed CPA Firms. A requirement is added for unlicensed owners of CPA firms to be of good character, which means lacking a history of dishonesty or felonious acts.

Miscellaneous Provisions. The definition of "home office" is removed. References to compilation, review, audit, and examination reports are changed to conform with provisions in the bill. CPA firms must meet "requirements," established by Board rule, instead of "competency requirements."

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.