

SHB 1211 - S COMM AMD

By Committee on Financial Services, Insurance & Housing

ADOPTED 04/16/2003

1 Strike everything after the enacting clause and insert the  
2 following:

3 "Sec. 1. RCW 18.04.195 and 2001 c 294 s 11 are each amended to  
4 read as follows:

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

9 (a) The sole proprietor shall hold a license to practice under RCW  
10 18.04.215;

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

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

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

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

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

23 (c) A simple majority of the ownership of the licensed firm in  
24 terms of financial interests and voting rights of all partners 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. The  
28 principal partner of the partnership and any partner having authority  
29 over issuing reports on financial statements shall hold a license under

1 this chapter or issued by another state that entitles the holder to  
2 practice public accounting in this state; and

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

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

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

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

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

23 (d) A written agreement shall bind the corporation or its  
24 shareholders to purchase any shares offered for sale by, or not under  
25 the ownership or effective control of, a qualified shareholder, and  
26 bind any holder not a qualified shareholder to sell the shares to the  
27 corporation or its qualified shareholders. The agreement shall be  
28 noted on each certificate of corporate stock. The corporation may  
29 purchase any amount of its stock for this purpose, notwithstanding any  
30 impairment of capital, as long as one share remains outstanding;

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

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

36 (4) A limited liability company engaged in business in this state  
37 and offering to issue or issuing reports on financial statements or

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

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

6 (b) Each resident manager or member in charge of an office located  
7 in this state shall hold a license 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 owners shall be  
10 held by natural persons who are licensees or holders of a valid license  
11 issued under this chapter or by another state that entitles the holder  
12 to practice public accounting in this state. The principal member or  
13 manager of the limited liability company and any member having  
14 authority over issuing reports on financial statements shall hold a  
15 license under this chapter or issued by another state that entitles the  
16 holder to practice public accounting in this state; and

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

19 (5) Application for a license as a firm shall be made upon the  
20 affidavit of the proprietor or person designated as managing partner,  
21 member, or shareholder for Washington. This person shall hold a  
22 license under RCW 18.04.215. The board shall determine in each case  
23 whether the applicant is eligible for a license. A partnership,  
24 corporation, or limited liability company which is licensed to practice  
25 under RCW 18.04.215 may use the designation "certified public  
26 accountants" or "CPAs" in connection with its partnership, limited  
27 liability company, or corporate name. The board shall be given  
28 notification within ninety days after the admission or withdrawal of a  
29 partner, shareholder, or member engaged in this state in the practice  
30 of public accounting from any partnership, corporation, or limited  
31 liability company so licensed.

32 (6) Licensed firms which fall out of compliance with the provisions  
33 of this section due to changes in firm ownership or personnel, after  
34 receiving or renewing a license, shall notify the board in writing  
35 within (~~thirty~~) ninety days of its falling out of compliance and  
36 propose a time period in which they will come back into compliance.  
37 The board may grant a reasonable period of time for a firm to be in

1 compliance with the provisions of this section. Failure to bring the  
2 firm into compliance within a reasonable period of time, as determined  
3 by the board, may result in suspension, revocation, or imposition of  
4 conditions on the firm's license.

5 (7) Fees for the license as a firm and for notification of the  
6 board of the admission or withdrawal of a partner, shareholder, or  
7 member shall be determined by the board. Fees shall be paid by the  
8 firm at the time the license application form or notice of admission or  
9 withdrawal of a partner, shareholder, or member is filed with the  
10 board.

11 (8) Nonlicensee owners of licensed firms are:

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

14 (b) Required to be a natural person;

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

18 (d) Subject to discipline by the board for violation of this  
19 chapter.

20 (9) Resident nonlicensee owners of licensed firms are required to  
21 meet:

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

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

25 (10)(a) Licensed firms must notify the board within thirty days  
26 after:

27 (i) Sanction, suspension, revocation, or modification of their  
28 professional license or practice rights by the securities exchange  
29 commission, internal revenue service, or another state board of  
30 accountancy;

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

35 (iii) The licensed firm is notified that it has been charged with  
36 a violation of law that could result in the suspension or revocation of  
37 the firm's license by a federal or other state agency, as identified by

1 board rule, related to the firm's professional license, practice  
2 rights, or violation of ethical or technical standards established by  
3 board rule.

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

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

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

13 (a) To persons meeting the requirements of RCW 18.04.105(1),  
14 18.04.180, or 18.04.183.

15 (b) To certificate holders meeting the requirements of RCW  
16 18.04.105(4).

17 (c) To firms under RCW 18.04.195, meeting the requirements of RCW  
18 18.04.205.

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

24 (3) An inactive certificate is renewed every three years with  
25 renewal subject to the requirements of ethics CPE and the payment of  
26 fees, prescribed by the board. Failure to renew the inactive  
27 certificate shall cause the inactive certificate to lapse and be  
28 subject to reinstatement. The board shall adopt rules providing for  
29 fees and procedures for renewal and reinstatement of inactive  
30 certificates.

31 (4) A license is issued every three years with renewal subject to  
32 requirements of CPE and payment of fees, prescribed by the board.  
33 Failure to renew the license shall cause the license to lapse and  
34 become subject to reinstatement. Persons holding a lapsed license are  
35 prohibited from using the title "CPA" or "certified public accountant."

1 Persons holding a lapsed license are prohibited from practicing public  
2 accountancy. The board shall adopt rules providing for fees and  
3 procedures for issuance, renewal, and reinstatement of licenses.

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

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

9 (b) Establish CPE requirements; and

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

12 (6) A certified public accountant who holds a license issued by  
13 another state, and applies for a license in this state, may practice in  
14 this state from the date of filing a completed application with the  
15 board, until the board has acted upon the application provided the  
16 application is made prior to holding out as a certified public  
17 accountant in this state and no sanctions or investigations, deemed by  
18 the board to be pertinent to public accountancy, by other jurisdictions  
19 or agencies are in process.

20 (7) A licensee shall submit to the board satisfactory proof of  
21 having completed an accumulation of one hundred twenty hours of CPE  
22 recognized and approved by the board during the preceding three years.  
23 Failure to furnish this evidence as required shall make the license  
24 lapse and subject to reinstatement procedures, unless the board  
25 determines the failure to have been due to retirement or reasonable  
26 cause.

27 The board in its discretion may renew a certificate or license  
28 despite failure to furnish evidence of compliance with requirements of  
29 CPE upon condition that the applicant follow a particular program of  
30 CPE. In issuing rules and individual orders with respect to CPE  
31 requirements, the board, among other considerations, may rely upon  
32 guidelines and pronouncements of recognized educational and  
33 professional associations, may prescribe course content, duration, and  
34 organization, and may take into account the accessibility of CPE to  
35 licensees and certificate holders and instances of individual hardship.

36 (8) Fees for renewal or reinstatement of certificates and licenses  
37 in this state shall be determined by the board under this chapter.

1 Fees shall be paid by the applicant at the time the application form is  
2 filed with the board. The board, by rule, may provide for proration of  
3 fees for licenses or certificates issued between normal renewal dates.

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

6 (i) Sanction, suspension, revocation, or modification of their  
7 professional license or practice rights by the securities exchange  
8 commission, internal revenue service, or another state board of  
9 accountancy;

10 (ii) Sanction or order against the licensee, certificate holder, or  
11 nonlicensee owner by any federal or other state agency related to the  
12 licensee's practice of public accounting or the licensee's, certificate  
13 holder's, or nonlicensee owner's violation of ethical or technical  
14 standards established by board rule; or

15 (iii) The licensee, certificate holder, or nonlicensee owner is  
16 notified that he or she has been charged with a violation of law that  
17 could result in the suspension or revocation of a license or  
18 certificate by a federal or other state agency, as identified by board  
19 rule, related to the licensee's, certificate holder's, or nonlicensee  
20 owner's professional license, practice rights, or violation of ethical  
21 or technical standards established by board rule.

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

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

32 The board shall have the power to: Revoke, suspend, refuse to  
33 renew, or reinstate a license or certificate; impose a fine in an  
34 amount not to exceed (~~ten~~) thirty thousand dollars plus the board's  
35 investigative and legal costs in bringing charges against a certified  
36 public accountant, a certificate holder, a licensee, a licensed firm,

1 or a nonlicensee holding an ownership interest in a licensed firm; may  
2 impose full restitution to injured parties; may impose conditions  
3 precedent to renewal of a certificate or a license; or may prohibit a  
4 nonlicensee from holding an ownership interest in a licensed firm, for  
5 any of the following causes:

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

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

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

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

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

15 (a) The laws of this state;

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

18 (c) Federal law;

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

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

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

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

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

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

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

- 1 (c) Failure to respond to subpoenas issued by the board, whether or
- 2 not the recipient of the subpoena is the accused in the proceeding;
- 3 (10) Failure by a nonlicensee owner of a licensed firm to comply
- 4 with the requirements of this chapter or board rule; and
- 5 (11) Failure to comply with an order of the board.

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

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

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

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

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

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

33 (4) ~~((Nothing in this section shall require a licensee to keep any  
34 work paper or electronic document beyond the period prescribed in any  
35 other applicable statute))~~ (a) For a period of seven years after the  
36 end of the fiscal period in which a licensed firm concludes an audit or

1 review of a client's financial statements, the licensed firm must  
2 retain records relevant to the audit or review, as determined by board  
3 rule.

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

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

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

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

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

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

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

33 (3) The board may elect to enter into a stipulated agreement and  
34 orders of assurance with persons in violation of RCW 18.04.345 who have  
35 not previously been found to have violated the provisions of this

1 chapter. The board may order full restitution to injured parties as a  
2 condition of a stipulated agreement and order of assurance.

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

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

10 (2) This section expires January 1, 2004."

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By Committee on Financial Services, Insurance & Housing

**ADOPTED 04/16/2003**

11 On page 1, line 2 of the title, after "act;" strike the remainder  
12 of the title and insert "amending RCW 18.04.195, 18.04.215, 18.04.295,  
13 18.04.390, and 18.04.370; creating a new section; prescribing  
14 penalties; and providing an expiration date."

**--- END ---**