

SENATE BILL REPORT

SB 5593

As Reported By Senate Committee On:
Labor, Commerce & Financial Institutions, February 27, 2001
Ways & Means, March 8, 2001

Title: An act relating to the public accountancy act.

Brief Description: Changing the public accountancy act.

Sponsors: Senators Gardner, Prentice and Winsley.

Brief History:

Committee Activity: Labor, Commerce & Financial Institutions: 2/19/01, 2/27/01
[DPS-WM, DNP].
Ways & Means: 3/7/01, 3/8/01 [DP2S].

SENATE COMMITTEE ON LABOR, COMMERCE & FINANCIAL INSTITUTIONS

Majority Report: That Substitute Senate Bill No. 5593 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Prentice, Chair; Gardner, Vice Chair; Fairley, Franklin, Patterson, Rasmussen, Regala and Winsley.

Minority Report: Do not pass.

Signed by Senators Benton, Hochstatter, Honeyford and West.

Staff: Catherine Mele (786-7470)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 5593 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Constantine, Vice Chair; Fairley, Vice Chair; Kline, Kohl-Welles, Rasmussen, Regala, B. Sheldon, Snyder, Spanel, Thibaudeau and Winsley.

Staff: Erin Hannan (786-7708)

Background: The Board of Accountancy regulates certified public accountants (CPA), certified public accountant firms, and the practice of public accountancy in Washington State. The board is comprised of seven board members appointed by the Governor.

The board issues CPA certifications to applicants who possess good character, pass all sections of the CPA exam, fulfill education requirements, and pass an ethics exam. Candidates who are initially certified may apply for a license if the candidate demonstrates that he or she has worked for 12 months or 2,000 hours part-time under the direct supervision

of a CPA or in a firm that participates in a board approved quality review program, or a government, nonprofit, or private entity that has an agreement with the board.

Generally, public accounting means issuing audit reports, review reports, or compilation reports on financial statements. In order to practice public accounting one must hold both a certificate and a license. Certificate holders, who do not obtain a license, may participate in some accounting activities but they do not practice public accounting. The board has different continuing education requirements for CPAs licensed to practice and reporting on financial statements, for CPAs licensed to practice and not reporting on financial statements, and for certificate holders. There are also non-CPA accounting professionals who perform accounting work, but are not regulated by the Board of Accountancy.

Recently, there has been a joint effort by the National Association of State Boards of Accountancy and the American Institute of Certified Public Accountants to create a uniform model act for the regulation of CPAs in all states. There are concerns that Washington should adopt the model act.

Summary of Second Substitute Bill: Membership of the Board of Accountancy is increased to nine members appointed by the Governor. Rule-making by the board regarding consumer alerts, public protection information, and other consumer protection information about violators of the act is discretionary. The board may enter stipulated agreements and orders of assurance with violators of the act. The board has authority to make rules regarding the new provisions of the act including provisions for transitioning to a new exam structure and setting fees.

Individuals practicing public accounting need only obtain a license. In order to obtain a license in public accounting, an individual must pass a written exam; have one year of experience gained through employment in government, academia, industry or public practice; and the employment must be in accounting, issuing reports on financial statements, management advisory, financial advisory, tax, tax advisory, or consulting skills. The licensee must also meet other requirements as created by the board.

A certificate holder is defined as someone who holds a certificate of public accountancy, has not petitioned to become a licensee, maintains continuing educational requirements, and does not practice public accounting. Procedures are created to allow certificate holders to petition the board to become licensees. Provisions are added for inactive certificate holders.

Provisions that allow reciprocity of licensing between Washington and other states are added.

A simple majority (51 percent) in a public accounting partnership or corporation must be owned by a licensee or holder of a certificate. In a partnership the principal partner or any other partner having authority over issuing financial statements shall hold a license. In a corporation the principal officer or any other officer or director issuing reports on financial statements must have a license. Any nonlicensed owners of a firm must comply with certain provisions of the act including ethics, registration, and fee requirements.

Second Substitute Bill Compared to Substitute Bill: Rule-making authority by the board regarding public protection is made discretionary. Two new definitions are included. Provisions are added for inactive certificate holders. Other technical changes are made.

Substitute Bill Compared to Original Bill: The original bill was not considered.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2001.

Testimony For: This bill attempts to bring certified public accountants (CPAs) into conformity with a national standard. We need reciprocity between the states to meet the changing needs of our clients. CPAs have one of the highest ranks for public trust. This is a global economy and we need to recognize this in our licensing structure and allow for national recognition of credentials. This bill provides for non-CPA ownership of CPA firms. This provision benefits small and large firms. Non-CPAs employed with CPA firms bring expertise to the firm and should be allowed to be partners. They should also know and understand the laws and ethical standards that govern CPA practice.

Testimony Against: We have concerns about this bill. We were surprised that banking and insurance stakeholders were not involved in negotiations. The non-CPA ownership issue may hurt a CPA's objectivity. Architects and lawyers do not allow nonlicensees to become part of their firms. We need more study before this is enacted. We worked hard on this bill and have run out of time. This is tax season. Accountants working during tax season do not have time to work on major elements of the bill that have changed since January. We need another year for a workable bill. The fiscal note is inflated.

Testified: Senator Gardner, prime sponsor; Jerry Miller, WA Assn. of Accountants (con); Carl Warren, WAA, WSSEA (con); Jim Hudspeth, WAA (con); Gary Smith, Ind. Bus. Assn. (con); J. Newton Rumble, CPA (con); John W. Catam, CPA (con); Jim Boldt, WA Society CPAs (pro); Bea Nahon, Bea Nahon CPA PS (pro); Bob Underhal, Arthur Andersen (pro); Tom Sadler, WA State Board of Accountancy; Senator Carlson (con).