

# HOUSE BILL REPORT

## ESSB 6406

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**As Reported by House Committee On:**  
Business & Financial Services

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

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

**Sponsors:** Senate Committee on Commerce & Labor (originally sponsored by Senators Warnick and Conway).

**Brief History:**

**Committee Activity:**

Business & Financial Services: 2/24/16 [DP].

**Brief Summary of Engrossed Substitute Bill**

- Authorizes out-of-state Certified Public Accountancy (CPA) firms to perform attest services within Washington without a CPA firm license issued by the Board of Accountancy (Board), subject to restrictions such as consenting to jurisdiction in Washington and the Board's disciplinary authority.
- Requires non-CPA owners of CPA firms to be of good character.
- Changes the use of certain terms and makes revisions to the Public Accountancy Act.

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### HOUSE COMMITTEE ON BUSINESS & FINANCIAL SERVICES

**Majority Report:** Do pass. Signed by 11 members: Representatives Kirby, Chair; Stanford, Vice Chair; Vick, Ranking Minority Member; McCabe, Assistant Ranking Minority Member; Barkis, Blake, Dye, Hurst, Kochmar, Ryu and Santos.

**Staff:** Peter Clodfelter (786-7127).

**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

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

"certified public accountants" or "CPAs." The Board of Accountancy (Board) issues licenses, adopts rules, conducts investigations, and otherwise administers the Act. Certified Public Accountants 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.

#### 2008 Individual Certified Public Accountant Mobility Act.

In 2008 the Legislature passed an act relating to enhancing the mobility of individual CPAs (the 2008 Act). Pursuant to the 2008 Act, an individual CPA whose principal place of business is outside of Washington is presumed to have qualifications substantially equivalent to Washington's requirements and has all the practice privileges of a licensed CPA in Washington without the need to obtain a license from the Board if the individual holds a valid license as a CPA from any state that has adopted standards substantially equivalent to Washington's standards.

An individual out-of-state CPA with practice privileges may hold out and practice within Washington and provide public accounting services in person, by mail, telephone, or electronic means to clients residing in Washington without notice or payment of a fee to the Board. As a condition of granting an individual out-of-state CPA practice privileges in Washington, the individual out-of-state CPA and the out-of-state CPA firm that employs the individual out-of-state CPA must:

- consent to the personal and subject matter jurisdiction and disciplinary authority of the Board;
- comply with the Act and Board rules; and
- appoint the individual out-of-state CPA or the out-of-state CPA firm's home-state licensing board as their agent upon whom process may be served in any action or proceeding by the Board against the individual out-of-state CPA or the out-of-state CPA firm.

The 2008 Act also defined "attest" services. "Attest" means providing the following financial statement services:

- any audit or other engagement to be performed in accordance with the Statements on Auditing Standards;
- any review of a financial statement to be provided in accordance with the Statements on Standards for Accounting and Review Services;
- any examination of prospective financial information to be performed in accordance with the Statements on Standards for Attestation Engagements; and
- any engagement to be performed in accordance with the Public Company Accounting Oversight Board Auditing Standards.

Additionally, the 2008 Act defined "home office" as the location specified by the client as the address to which a service is directed.

#### Board Licensure of Certified Public Accountancy Firms.

In addition to licensing individual CPAs, the Board also licenses CPA firms. The CPA firms must meet the following requirements for licensure by the Board:

1. At least a simple majority of the ownership of the CPA firm in terms of financial interests and voting rights of all partners or owners must hold a CPA license and be principally employed by the CPA firm or be actively engaged in its business.
2. The principal partner, officer, member, or manager of the partnership, corporation, or limited liability company who has authority over issuing reports must hold a CPA license.
3. The CPA firm must meet the Board's QAR program requirements.
4. The CPA firm must meet the Board's competency requirements.

#### In-State Certified Public Accountant Firms.

The following CPA firms must hold a CPA firm license issued by the Board:

- any firm with an office in Washington performing attest or compilation services; and
- any firm with an office in Washington that uses the title "CPA" or "CPA firm."

#### Out-of-State Certified Public Accountant Firms.

Any CPA firm that does not have an office in Washington but performs certain attest services for a client having its home office in Washington must hold a CPA firm license issued by the Board. The following are the attest services triggering the licensure requirement for out-of-state CPA firms:

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

However, certain other services may be performed in Washington by an out-of-state CPA firm without a CPA firm license issued by the Board. Specifically, out-of-state CPA firms may perform compilations as well as reviews of financial statements to be performed in accordance with the Statements on Auditing Standards without licensure by the Board. When performing these services, the out-of-state CPA firm must meet QAR program requirements, the services must be provided by an individual CPA with practice privileges in Washington, and the Board has jurisdiction over the out-of-state firm.

#### Reports Prepared by Certified Public Accountants.

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.

#### Noncertified Public Accountant Owners of Licensed Certified Public Accountancy 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;

- 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.

#### 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, the preparation of financial statements, written statements describing how financial statements were prepared, or similar services. However, the person or firm offering such services may not designate any written statement as an "audit report," "review report," or "compilation report," issue any written statement that purports to express or disclaim an opinion on audited financial statements, or issue any written statement that expresses assurance on reviewed financial statements.

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#### **Summary of Bill:**

##### Board Licensure of Certified Public Accountancy Firms.

###### *Out-of-State CPA Firms.*

An out-of-state CPA firm may perform attest services in Washington without a CPA firm license issued by the Board if:

- at least a simple majority of the ownership of the CPA firm in terms of financial interests and voting rights of all partners or owners hold a CPA license and are principally employed by the CPA firm or are actively engaged in its business;
- the principal partner, officer, member, or manager of the partnership, corporation, or LLC who has authority over issuing reports holds a CPA license;
- the out-of-state CPA firm meets the Board's QAR program requirements;
- the out-of-state CPA firm performs the attest services through an individual with a CPA license from a state that imposes standards substantially equivalent to Washington; and
- the individual CPAs with practice privileges may lawfully perform the attest services from the state in which they 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.

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 the Act and Board 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.

##### Reports Prepared by Certified Public Accountants.

The use of the defined term "reports on financial statements" is replaced by the word "report," which is defined. A "report," when used with reference to any attest or compilation service, means 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 that also 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 use by the issuer of the report of names or titles indicating that the person or firm is involved in the practice of public accounting, or from the language of the report itself. "Report" includes any form of language that disclaims an opinion when such form of language is conventionally understood to imply any positive assurance as to the reliability of the attested information or compiled financial statements referred to or special competence on the part of the person or firm issuing such language; and it includes any other form of language that is conventionally understood to imply such assurance or such special knowledge or competence.

Noncertified Public Accountant Owners of Licensed Certified Public Accountancy Firms.  
Non-CPA owners of licensed CPA firms must be of good character, in addition to the existing requirements.

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.

Miscellaneous Changes.

The use of the term "home office" is removed.

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**Appropriation:** None.

**Fiscal Note:** Not requested.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony:**

(In support) The Legislature gave increased cross-state mobility to individual CPAs in 2008 and now it makes sense to give comparable cross-state mobility to CPA firms. This will make conducting business easier. The updates to the Act in the bill make the Act more closely match the national Uniform Accountancy Act, which was recently updated. Twenty-nine other states have already adopted these updates. The bill has been well worked, and CPAs and nonlicensed accountants are in agreement on the language. Clarifications were made to the definition of "report" and to the section of the Act addressing services not prohibited by the Act to ensure that nothing in the bill impacts or changes the services that nonlicensed accountants currently perform. The Board intends to adopt a rule under the authority in section 7 of the bill, although because the rule-making process is open to public comment, dictating exact language may be challenging.

(Opposed) None.

(Other) So long as nothing in the bill impacts or changes the services that nonlicensed accountants currently perform, which is the understanding of all the stakeholders, there is agreement. Stakeholders are relying on members' assurances that if any issues arise because of changes to the Act in this legislation, then those issues will be resolved.

**Persons Testifying:** (In support) Senator Warnick, prime sponsor; Bill Simer and Kimberly Scott, Washington Society of Certified Public Accountants.

(Other) Gary Smith, Independent Business Association.

**Persons Signed In To Testify But Not Testifying:** None.