
**Consumer Protection & Business
Committee**

SB 5887

Brief Description: Modifying the public accountancy act.

Sponsors: Senators Stanford, Dozier, Conway and Mullet.

Brief Summary of Bill

- Modifies licensing requirements for Certified Public Accountant (CPA) Firms and individual CPAs.
- Adds causes for which the Accountancy Board may revoke or nonrenew a license.

Hearing Date: 2/16/24

Staff: Michelle Rusk (786-7153).

Background:

The Public Accountancy Act (Accountancy Act) governs the practice of accounting in Washington and the Board of Accountancy (Board) regulates the accounting profession and administers a licensing program for persons and firms that engage in the practice of public accounting.

Certified Public Accountant and Firm Licenses in Washington.

To become a licensed Certified Public Accountant (CPA) in Washington, a person must:

- be of good character;
- meet educational standards established by rule by the Board;
- pass a CPA examination;

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- have one year of experience using accounting or related skills while employed in government industry, academia, or public practice, and have met the competency requirements set by the Board; and
- have paid the appropriate fees established by the Board.

The Accountancy Act defines "firm" as a sole proprietorship, corporation, partnership, or limited liability company, and provides a separate definition for sole proprietorship. Firms that perform, or offer to perform, attest or compilation services, and do not otherwise qualify for an exception, must obtain a firm license and adhere to entity-specific requirements. With specified variations depending on the entity structure of the firm, firms must:

- obtain the appropriate firm license and renew it with the Board every three years;
- require each resident individual in charge of an office in this state to hold a CPA license;
- require that at least a simple majority of the ownership of a licensed firm, in terms of financial interests and voting rights, hold a CPA license issued by the state or by another state, and that the principal partner, officer, member, or manager having authority over issuing reports hold a CPA license issued by the state or by another state;
- require at least one general partner, shareholder, or member of the firm hold an individual CPA license or a practice privilege; and
- meet requirements established by rule by the Board.

Firms that are structured as corporations are subject to the additional requirement of a written agreement binding the corporation or its shareholders to purchase any shares offered for sale by, or not under the ownership or effective control of, a qualified shareholder, and binding any holder not a qualified shareholder to sell the shares to the corporation or its qualified shareholders. The corporation may purchase any amount of its stock for this purpose, notwithstanding any impairment of capital, as long as one share remains outstanding.

Each firm office established or maintained in this state must be under the direct supervision of a resident licensee with a state CPA license.

Practice Privilege.

An individual with a principle place of business outside of Washington must be presumed to have qualifications substantially equivalent to Washington's requirements and have all the same privileges of state licensees, without a need to obtain an individual CPA license, if the individual:

- holds a valid CPA license from any state that requires, as a condition of licensure, that the individual: (1) have at least 150 semester hours of university education; (2) pass the uniform CPA exam; and (3) possess at least one year of relevant, qualifying experience; or
- holds a valid CPA license from any state that does not meet the aforementioned requirements, but the individual's qualifications are substantially equivalent to the state's requirements.

Prohibited Actions and Exemptions.

The Accountancy Act expressly prohibits certain practices including, for example: (1) using the

designation of "certified public accountant" without holding a license or practice privilege; (2) performance of attest or compilation services by a firm without a firm license and registered offices; and (3) holding oneself out to the public as an auditor without the appropriate licenses. Nothing in the Accountancy Act prohibits any act of, or the use of any words by, a public official or a public employee in the performance of his or her duties.

Summary of Bill:

Certified Public Accountant Firm and Individual Certified Public Accountant License Requirements.

CPA Firms.

The definition of "firm" is modified to include "any other form of organization issued a license" under the Accountancy Act, and the definition for "sole proprietorship" is removed.

Entity-specific CPA firm requirements are removed, and one set of requirements is established for all CPA firms that must obtain a license under the Accountancy Act:

- A simple majority of the ownership of a CPA firm must hold and renew an individual state CPA license or hold a practice privilege.
- All licensee and nonlicensee owners of a CPA firm must comply with rules promulgated by the Board.
- The principal member, manager, officer, or partner of a CPA firm having authority over issuing reports must hold an individual state CPA license or hold a practice privilege.
- CPA firms must comply with office registration requirements.

The practice of public accounting in each office of a CPA firm established or maintained in this state must still take place under the direct supervision of a resident licensee with a state CPA license, except that nonlicensees are not precluded from being in charge of a CPA firm.

Individual Licensees.

The requirement that an applicant for a license to practice public accounting possess one year of experience is removed and an applicant must instead meet the experience requirements established by rule by the Board as it seems appropriate.

Practice Privilege.

The requirements for an out-of-state licensee to practice in Washington without obtaining a Washington license are modified. An out-of-state licensee must be presumed to have qualifications having substantial equivalency to this state's requirements if the individual either:

- holds a valid license or certificate as a CPA from any state or jurisdiction of the United States that requires the individual meet requirements having substantial equivalency to those set by the Board; or
- holds a valid license or certificate as a CPA from any state or jurisdiction of the United States whose licensing requirements do not meet this state's requirements, but the individual possesses qualifications having substantial equivalency to those of this state.

Prohibited and Nonprohibited Practices.

Prohibited practices and their exemptions are consolidated into one section of the Accountancy Act. The Accountancy Act does not prohibit any act of, or the use of any words by, a public official or public employee when, in performance of their duties, they: (1) perform compilation or attest services; and (2) are held out to the public as an auditor.

Other Revisions.

Three causes are added for which the Board may take adverse action against a licensee:

1. dishonesty or fraud in obtaining a license, or in any filing with the Board;
2. performance of any fraudulent act while holding a license or privilege issued under the Accountancy Act; and
3. making any false or misleading statement or certification in support of an application for a license filed by another.

Words referring to gender are replaced with gender neutral terms, references to "substantially equivalent" are replaced with "having substantial equivalency," and certain intent sections and effective date provisions are removed.

Appropriation: None.

Fiscal Note: Available.

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