

WASHINGTON STATE ETHICS AND REGULATION FOR NEW CPAS

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WELCOME and CONGRATULATIONS

on having satisfactorily completed the National Uniform CPA Examination.

This presentation will provide you:

- **A General Overview of your responsibilities once you are recognized** as a CPA by the Washington Board, *including your required commitment to relevant Life-Long Learning*;
- A discussion and summary of the Executive Director's investigative authority to address alleged violations and the Board's disciplinary authority relevant to violations;
- **Information about those portions of this state's Public Accountancy Act and Board Rules applicable to:**
 - a) **Your Initial Qualifications**, *including your Experience Affidavit*;
 - i. Absence of a History of Dishonest or Felonious Acts; and
 - ii. Experience;
 - b) Continuing Professional Education (CPE) requirements;
 - c) Unique CPE Requirements applicable to your first Renewal Cycle/CPE Reporting Period.

Be Advised,

***you cannot use the title "CPA" in Washington State
until your application for recognition has been received, evaluated, approved, and
entered into the Board's database of qualified individuals.***

***Once you are qualified, you and other interested parties can
confirm your status
using publicly accessible databases available through the
Board's website and CPAVerify.org.***

- The opportunity to gain an in depth understanding of the breadth of the regulatory framework (laws and regulations, rules and interpretations) that apply to you as a CPA.

INTRODUCTION

This introduction is intended to provide you a framework for deciding what is appropriate behavior and/or performance by those members of any form of organization or discipline in which an employer or the general public places confidence and trust to achieve their individual and/or jointly held self-interests.

The objective of this decision making framework is

SIMPLE!

Do unto OTHERS what you would desire others to do unto YOU

However,

Never expect a perfect or uncontested delivery or outcome!

REMEMBER

This is the United States of America

Populated with, and respected for, the open expression of differences of opinion!

Therefore, each of us should consider the expectations of others when executing our roles as citizens, employees, volunteers, or members of specific disciplines.

However, this general framework for responsible decision making and performance will hopefully be useful in all walks of life.

More germane to this presentation, certain disciplines have been tagged by Society as the **“Learned Professions”**.

Members of those groups are routinely held to specifically defined standards codified by the members themselves in the forms of Codes of Conduct to guide the behavior and performance of its membership in recognition of an agreed-upon perception of what the publics’ expectations are for those persons.

This Introduction will specifically address the framework perceived to meet the publics’ expectations when an individual or entity markets its knowledge base and is engaged to utilize specific knowledge and skill sets in providing services as an **Individual Certified Public Accountant (CPA), CPA-Inactive certificate holder, Non-CPA Firm owner, firm of CPAs, or professional employee of those persons in Washington State.**

A Decision Model

1. **IDENTIFY** the **RELEVANT**:
 - Circumstances and Relationships
 - Legal, Judicial, Regulatory, and other Expectations/Norms
2. **IDENTIFY** who is likely to be Affected, Influenced, or Informed of your decision
3. **Determine** a Risk-Averse Array of possible, OUTCOMES given possible DECISIONS
4. **Evaluate** the direct and indirect COST to you and the BENEFIT(s) to affected, influenced, or other interested parties of each possible decision
5. **Consult** with others
6. **Decide**

REMEMBER

Responsible Decisions

must generally be made in a short period of time

BUT

Life-Long Learning

and

“the Person in the Mirror”

Helps!

The speed limit between Olympia and SeaTac is posted at 60 MPH
An average speed of 35 MPH is likely at times based upon past experience
I have a 6:00 AM flight to Omaha for a critical business meeting
I am leaving on a Saturday during the Summer
I oversleep and must rush to leave home

What is your Decision?

How quickly did YOU make the Decision?

Who or What might be left out of the Decision?

In the context of professional behavior

The Point of the Example is:

Mere Rule Compliance or Noncompliance

MAY IGNORE the effect or potential effect on OTHERS

As a CPA your Primary Responsibility is to OTHERS!

Critical Elements of Regulatory Compliance

In my view the **Critical Elements** of ethical behavior and regulatory compliance are FEW:

1. **Place the publics' interest(s) ahead** of your employee's or clients' self-interest(s) or demands and your personal self-interest;
2. **Be honest and forthright** with yourself and your employers and clients;
3. **Maintain your Continuing Competency** through life-long learning;
4. **Apply Professional Skepticism at all times;**
5. **Don't give advice or reach judgments without a solid basis for your professional views; and**
6. **Be "Closed Mouthed"** about employer or client matters

**Integrity, Objectivity, Competency,
and Confidentiality
will generally keep you out of trouble**

IF

You truly respect yourself

THE

"Person in the Mirror"

As a preamble to the remainder of these materials, I want to remind you of a few points

- **First, your right to represent yourself as a CPA** and offer or render professional services in any state **is granted by Boards of Accountancy** NOT *voluntary membership organizations such as State CPA Societies or the AICPA*.
- **Second**, as a credentialed person **your primary responsibility is to honor the public's trust and expectations** as a result of your privileged status; and
- **Thirdly**, the public expects you to continuously demonstrate the following personal characteristics:
 - **Honesty and Candidness** in all matters related to those you serve;
 - **Personal Objectivity**, including *avoidance of Conflicts of Interest*;
 - **Technical Competency** sustained through *relevant Life-Long Learning*; and
 - **Absolute Confidentiality** with respect to your client's or employer's affairs;

You must initially and continually demonstrate that you are worthy of this privileged status.

General Overview of YOUR Responsibilities

- I. **Understand that Board Rules are promulgated to promote the following basic principles** applicable to all credentialed persons and professional employees:
 - a) **Serve the public interest** -A person representing oneself as a CPA, CPA-Inactive certificateholder, or using the CPA or CPA-Inactive title, CPA firms or firm owner and professional employees of such persons must accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate a commitment to professionalism.
 - b) **Exercise Reasoned Professional judgment** -In carrying out their responsibilities, a person representing oneself as a CPA, CPA-Inactive certificateholder or firm owner and professional employees of such persons must exercise professional judgment in all their activities.
 - c) **Demonstrate Integrity** - To maintain and broaden public confidence a person representing oneself as a CPA, CPA-Inactive certificateholder or firm owner and professional employees of such persons must perform all professional responsibilities with the highest sense of honesty.
 - d) **Maintain Personal Objectivity** – A person representing oneself as a CPA, CPA-Inactive certificateholder or firm owner and professional employees of such persons must maintain objectivity at all times when rendering professional services.

Bottom-Line: A person representing oneself as a CPA or CPA-Inactive certificateholder, firm owners, and professional employees of such persons must exercise due professional care when offering or performing any type of professional service(s) and:

- *Avoid rendering professional services where actual or perceived conflicts of interest exist.*
- *Be independent in fact and appearance when providing attestation services.*
- *Comply with federal and state laws and the profession's technical and ethical standards;*
- *Maintain competence and strive to improve the quality of services; and*
- *Personally discharge professional responsibility with the highest sense of integrity, objectivity and ethical commitment.*

- II. **Understand** that, in Washington State, the **agency staff, under the direction of Executive Director of the agency, administers the Public Accountancy Act and Board Rules.**

The **nine Board members** establish **Policies and Rules** to guide agency personnel and serve as the **State's Disciplinary Authority.**

Contact the Board staff if you have any questions about compliance with your responsibilities.

Contact information is on the Board's website at www.cpaboard.wa.gov.

- III. **Stay Current on Changes** in the Washington State Public Accountancy Act and Board Rules by frequently visiting the **Board's website:**

At the Board's website go to Resources, Laws and Rules.

- IV. **You must Understand and Comply** with the following items to avoid inquiries by agency personnel about your non-compliance with administrative requirements:

- a) You must **timely renew your qualifications every three (3) years** by applying through the renewal process (either through the On-Line application and payment system or by submitting a paper application form).

Privileges expire (lapse) on June 30th of the year following the third calendar year-end (December 31st) after a person has qualified or re-qualified. However, by Board rule a timely application for renewal must be filed by April 30th to avoid a late fee of \$100 if the application for renewal is file between May 1st and June 30th

- 1) Your "experience" is not re-evaluated;
- 2) Your "continued good character" is re-evaluated, i.e. the Board and the public expect a life-long lack of dishonest or felonious acts;
- 3) You must have completed 120 hours of relevant continuing professional education (CPE) by December 31st of the calendar year preceding the calendar year your privileges expire.

*The 120 hours must include completion of a four (4) hour Board approved course in Ethics and Regulation specific to the practice of public accounting in Washington State. The **approved providers of this course** are listed each year on the **Board's website**, www.cpaboard.wa.gov.*

At the Board's website go to Individual Licensing, CPE, and then Board Approved Ethics.

Unique CPE Requirement during your first CPE reporting period

Example:

Say your first credential was issued on **January 3, 2012**. Your 120 hours of CPE would be required to be completed by December 31st of 2014 for timely renewal without penalty by April 30, 2015.

However, if your first credential was issued **December 15, 2012**, your 120 hours of CPE **would STILL be required to be completed by December 31st of 2014** for timely renewal without penalty by April 30, 2015.

b) **Extensions** to complete your required CPE may be granted upon written request. To be considered the request:

- 1) Requests for extension **must be received by December 31st** of the last calendar year of your CPE reporting year;
- 2) The **request must be for individual hardship**, including financial hardship, critical illness, or active military employment;
- 3) **The request must also specify the specific plan to fulfill your requirement**, including expected date to complete a list of specific courses;

I. Failure to timely satisfy the terms of the approved extension will cause your credential to expire, become subject to reinstatement at a cost of \$480 and may result in discipline and/or other sanctions

II. Courses taken by extension will be credited to the prior period and not be allowed as credit for your next 3 year renewal requirements.

4) IF you fail to timely complete the CPE requirement and:

- a) **Do not file and receive** a timely extension request; **but**
- b) **Do self-report** that deficiency during the renewal period (January 1st and June 30th), you will be allowed to obtain continuing credentials if, on or before June 30th, you:

- 1) **Correct the deficiency;**
- 2) **Submit your documents** to agency personnel for evaluation; and
- 3) **Pay your renewal fee of \$230 plus an additional \$250 amount for a total of \$480 as a reinstatement fee.**

For both the approved extension requests and self-reported and timely corrected deficiencies a CPE audit of your completion documents will be conducted in your subsequent renewal period to ensure you do not inadvertently obtain credit for the carry-back course(s) in that subsequent period.

V. **Understand and continue to refresh your knowledge of** how Board Rules differ from Codes of Conduct or other guidance of professional, state, or federal regulations and /or Employer policies. An overview of the major differences that currently exist are:

a) **Board Rules prevails** If the rule is more restrictive;

i. **Prohibited Conflicts of Interest:**

- **Self-Dealing as a CPA Trustee** is prohibited UNLESS specifically authorized by the Trust Creation Document.

Self-Dealing is defined to include:

- (1) **Investing trust funds** in an entity controlled by or related to the CPA Trustee;
- (2) **Borrowing funds** from the trust, with or without disclosure; and
- (3) **Employing persons related to the CPA trustee** or entities in which the trust has a beneficial interest to provide services to the trust, unless such an arrangement is specified in the governing instrument

- **Borrowing money, directly or indirectly, from a non-financial institution client by a credentialed person** unless the client is in the business of making the types of loans obtained **and** the terms are not more favorable than extended to other persons of similar credit worthiness.

ii. **Other Differences that can result in Board disciplinary actions:**

- **Independence** differs from AICPA and Government Accounting Office (GAO) Guidance in that this is not a rule based issue

The Washington State Board defines Independence as a personal decision.

Independence means the absence of relationships that impair a licensee's impartiality and objectivity in rendering attest services. Each CPA must evaluate his or her objectivity and determine whether or not he or she is objective and impartial in addition to the perception of a reasonable and foreseeable user of the attest report.

In other words, after consideration of AICPA and GAO guidance, the CPA must decline attest engagements where the CPA decides whether the she or he has any relationships that could lead a reasonable and foreseeable user of the attest report to conclude that the individual CPA may be impartial or lack objectivity.

Example:

A Washington Licensee manages an audit. During the audit the licensee is offered a position with the client after a superficial search for applicants is concluded. The licensee advises the firm of the offer and her intent to accept the position. The licensee is removed from the engagement pursuant to professional standards. The licensee does not get the position as a more suitable candidate surfaces from the search process. That person is hired at a starting salary twice the amount that was offered to the licensee.

The audit firm reassigns the licensee to the engagement.

Any Independence Issues (a) for the licensee or (b) for the firm?

You personally, the firm, and the client must separately evaluate whether the fact of not being selected for the open position in the client's organization would or could affect the objectivity of the rejected CPA.

In this actual situation, the client questioned the objectivity of the CPA upon becoming aware of the reassignment.

iii. Other Differences that can result in Board disciplinary actions (Continued):

- **Concealing another person's violation** of the Public Accountancy Act or Board Rules;
- **Withholding client requested records for unpaid fees;**
- **A firm license** must also be obtained by any **resident individual**, organized as a sole proprietorship, who:
 - ✓ **Uses the title CPA *in conjunction with* offering or performing any professional services** in this state; **and/or**
 - ✓ The individual/sole proprietorship **offers or performs attest or compilation services** for clients in this state:
- An individual licensee **with no employees** currently pays **no fee** to obtain a firm license.
- **The \$230 firm license fee is required if the individual-sole proprietor has employees.**

VI. **Understand** that you must **timely report** to the Board if certain events occur and **timely respond** to Board inquiries. The following table provides an **abridged version** of the current requirements for individuals:

<u>Condition</u>	<u>Time Period</u>	<u>Form of Contact</u>	<u>Relevant Rule (WAC)</u>
Complete and/or submitted applications, including requested information, documents, and fees.	<u>Prior to holding out</u> as a credentialed person (CPA).	On-line system , board form, letter, or e-mail with required information.	Various Rules specific to Applications for Credentialing
Request for BAP, (Brief Administrative Proceeding)	Within 30 days after the <i>staff decision is posted</i> in U.S. mail.	E-mail or written correspondence.	WAC 4-30-028
Request for appeal of BAP.	Within 21 days after the <i>BAP decision is posted</i> in U.S. mail.	Oral, e-mail or written correspondence.	WAC 4-30-028
Change of physical address, i.e. address of record	Within 30 days of any <i>address change</i> .	On-line system , board form, letter, or e-mail	WAC4-30-32
Board requests for information/documents	Within 20 days after the date of the request.	E-mail or written correspondence.	WAC 4-30-34
<u>Notification of orders or sanctions imposed</u> by the <u>SEC, PCAOB, IRS, another state board of accountancy or Foreign Credentialing Authority.</u>	Within 30 days of receipt of an <i>initial notice</i> .	Board form, letter, PDF, or e-mail with required information.	WAC 4-30-036
<u>Charges filed</u> by the <u>SEC, PCAOB, IRS, another state board of accountancy, Foreign Credentialing Authority, or a federal or state taxing, insurance or securities regulatory body</u>	Within 30 days of receipt of an <i>initial notice</i> .	Board form, letter, PDF, or e-mail with required information.	WAC 4-30-036
A foreign license, permit, or certificate has lapsed or otherwise becomes invalid.	Within 30 days after the <i>credential becomes invalid</i> .	Board form, letter, PDF, or e-mail with required information.	WAC 4-30-100

- VII. **You must understand** that **the Executive Director** of the agency (*AKA Board of Accountancy*) has investigative authority for alleged violations and **the Board has disciplinary authority** for violations of the Public Accountancy Act and Board Rules.

You may retain legal counsel at any time in this process.

The Board or the Executive Director may enter into **Consent Agreements** for alleged violations or you have the right to request a **Full Board PUBLIC Hearing**.

*Failure to reach an agreement to the facts or terms of a settlement proposed by the Executive Director results in a **Statement of Charges** initiated by the Executive Director.*

A Board hearing is conducted under the Washington State Administrative Procedures Act.

If you disagree with the outcome of the Board Hearing you have appeal rights through the Washington State's Judicial System.

For certain staff denials of applications for initial or continued recognition you may request a

Brief Administrative Procedure

in lieu of a request for Board Hearing.

The BAP is conducted by a single Board member selected by the Board Chair.

Appeal of a BAP decision is limited to review by the Board's Vice-Chair or Board member designee

Board imposed Sanctions allowed by statute can be found at

www.cpaboard.wa.gov

then go to

RCW 18.04.295

Details about the Investigative and disciplinary processes can be found in Board Policy 2004-1.

That document is also available on the Board's website.

at the home page go to

Resources, Board Policies, 2004-1, Sanction and Penalty Guidelines

Although the Board generally applies administrative processes for disciplinary matters, certain violations may become subject to prosecution through the State's judicial system.

See www.cpaboard.wa.gov, **Resources, Laws, at RCW 18.04 subsections .360, .370, and .380.**

We will now turn to the additional requirements you must satisfy to receive Board recognition.

Initial Qualification

To be considered for qualification as a licensee in Washington State certain requirements apply in addition to passing the examination.

Washington State does NOT have a residency requirement.

Initial requirements are referred to as the 3 E's:

1. Education-*150 hours of Qualifying Education*
2. Examination- *National Uniform CPA Exam*
3. **NO** history of dishonest or felonious acts
4. **Experience**

This additional discussion is limited to the **Experience Requirement**.

The application process is available On-Line.

In addition to answers to the questions included in the On-Line application process certain documents must be mailed or otherwise submitted to the agency to complete the application process. Those documents include:

- An **Experience Affidavit Form** to be evaluated by a **Verifying CPA**;
- A **Verification** of your Experience by a **Qualified Verifying CPA**;
- **Documentary evidence** that you received *a score of 90% or better on a course covering the complete content of the AICPA Code of Professional Conduct*;
- **Documentary evidence that you received a score of 90% or better on this course .**

The Experience Requirement and the Verification Process:

The **Experience Affidavit Form** includes the following request for information:

1. The industry or fields in which the work experience occurred;
2. The dates covered by your work experience covered at least a 12 month period (not required to be consecutive).
3. Was obtained no more than 8 years prior to the date the board receives the application;
4. Consisted of a minimum of 2,000 workplace hours;
5. Your assertion that the work environment and tasks performed by you **provided the opportunity** for you to obtain the certain Board specified competencies.

The other required competencies are listed on an **Experience Affidavit Form** available on the Board's website www.cpaboard.wa.gov under the **TAB Individual Licensing**, then *First License* on the **Ribbon**.

Your work experience(s) should demonstrate that the work environment and tasks performed by you **provided the opportunity** for you to obtain the listed competencies.

**Those work experiences are not required to be obtained
in the practice of public accounting working for a CPA firm.**

For example, say that prior to sitting for the exam or while attending college you worked as a night clerk for a motel. Your job duties were to complete the registration process, including documentation of the form of payment, accept credit card or cash payments upon registration, secure cash payments in the motel's vault, perform a reconciliation of all payments to new occupancy for your shift activity prior to leaving the premises at the end of your shift, and complete a shift time record for your supervisor's approval. During your first week on the job you were provided training to ensure that you understood expectations, how to do perform the tasks, what was the reason for the task, and the consequences of manipulating data inappropriately, providing free occupancy to friends and/or family, theft of cash.

Under those circumstances, you have been given the opportunity to obtain some competencies.

- *What **motel objective(s)** is (are) supported by performing a reconciliation of payments to occupancy for the activity of a person's shift?*

Protect the employee from accusations of misuse of entity resources and protect the entity from revenue losses

- *To which transaction stream(s) and information systems were you exposed?*

**At a minimum
Cash, credit, payroll, and revenue transactions.**

- *What procedures here addressed the entity's risk(s)?*

Cash security by placing cash in the entity's vault, Reconciliation of payments to new occupancy, supervisor's approval of time records, training on the consequences of manipulating data inappropriately.

Now **YOU** have a responsibility to **select and engage a qualified CPA** licensed by any state to verify that your employment information is accurate and the tasks you performed provided you the opportunity to obtain the Board specified competencies.

To qualify to verify your experience the verifying CPA must have held a valid unrestricted license to practice public accounting in Washington or another substantially equivalent state for a minimum of 5 years prior to the date your affidavit is verified.

(The 5 years are not required to be consecutive)

The verification process is a documentation and inquiry type evaluation by the Verifying CPA.

In other words the Verifying CPA is only required to:

1. Obtain your Experience Affidavit Form;
2. Verify your employment history as submitted by you;

*Consider submitting **a resume** and **some type of evidence to validate your employment history** along with the Experience Affidavit Form.*

3. Confirm that you have completed (a) this course, (b) another approved Ethics and Regulation course specific to the state of Washington Public Accountancy Act and Board Rules as required by WAC 4-30-134(6)(c) submit to a Board examination (Online) receive a grade of 90% or better on that examination.
4. The verifying CPA may by Interview or otherwise obtain or possess sufficient knowledge to **understand the skill sets you applied in your employment given the tasks you performed, and the time spent performing those tasks;** and
5. Conclude whether that experience gave you the **opportunity** to obtain each of the specific competencies.

SUMMARY

- Board recognition allowing you to refer to yourself as a **CPA is a Public Privilege granted ONLY by State Boards of Accountancy**;
-
- That **Privilege is accompanied by a personal commitment to:**
 1. *Obtaining relevant Life-Long continuing professional education.*
 2. *A Life-Long absence of Dishonest or Felonious Acts.*
 3. *Communicate Honestly and Candidly with those served.*
 4. *Act with Personal Objectivity, including avoidance of Conflicts of Interest.*
 5. *Maintain and perform with Technical Competency sustained through relevant Life-Long Learning.*
 6. *Maintain absolute Confidentiality with respect to your client's or employer's affairs.*
 7. *Be Independent in fact and appearance when providing attestation services.*
 8. *Comply with federal and state laws and the profession's technical and ethical standards.*
 9. *Strive to improve the quality of services.*
 10. *Personally discharge professional responsibility with the highest sense of integrity, objectivity and ethical commitment, and*
 11. *Timely report certain events related directly to your continued qualification.*
- The **Regulatory and Disciplinary authority and processes of the Washington State Board of Accountancy** are designed to:
 - **Promote the reliability of financial and non-financial information** for Decision Making;
 - Ensure that **persons credentialed by this Board are “Substantially Equivalent”** with those credentialed by other states and can perform the duties of CPAs in as many states and countries as possible;
 - Serve as a **Consumer Protection Agency to identify, discipline, and make the general public aware** of those persons who do not demonstrate the professionalism, technical competency, and ethical behavior expected by consumers, creditors, and the investing public.
 - **The Board has a website with staff contact information to provide assistance to you** in meeting your responsibilities and credentialing requirements, obtain other information, and answer questions.

SUMMARY (Continued)

- In those instances for which discipline is appropriate, the Board conducts its deliberations pursuant to the **Washington State Administrative Procedures Act, RCW 34.05.**

However, certain violations may become subject to prosecution through the State's judicial system.

- The **Privileges of Title Use and Practice Rights in Washington State** must be **Renewed** every **three (3) years.**
- The **CPE Reporting Period** *ends on December 31st* of the calendar year preceding the calendar year in which the credential is required to be renewed.

A “Deeper Dive” into Regulation

I

The remainder of the materials will provide more details of the Rules and many Interpretations of the Code of Conduct issued by the AICPA and the subtle differences in terminology and effect of Board Rules.

Additionally, other Washington State Laws and regulations that you need to be aware of are identified.

The applicability of ALL applicable Federal Laws and Regulations are beyond the scope of these materials.

You will experience some redundancy with this section.

This is intentional to reinforce your responsibilities and understanding.

The Regulatory Framework in Washington State

NOTE

The complete text of the **most current Public Accountancy Act, Board Rules, and Board Policies** can be found Via the Board's website
www.cpaboard.wa.gov/resources

**The Board's Rules are built upon the
AICPA Code of Professional Conduct
And
Other State & Federal Laws & Regulations**

This is codified in Board Rule **WAC 4-30-048**; *Compliance is required with which rules, regulations and professional standards?*

That rule also states:

... However, **if the requirements found in the professional standards** listed in this section differ from the requirements found in specific board rules, **board rules prevail.**

Correspondingly, the AICPA Code states that a violation of a more restrictive state board rule is also a violation of the AICPA Code.

Therefore, *for each set of circumstances*, the decision logic should be to:

- **IDENTIFY** governing AICPA Code provisions and/or applicable State/Federal Laws and Regulations
- **Then compare to the specific Board Rule(s)**

See Excerpts of WAC 4-30-048 on the next page

Overview of WAC 4-30-048 (Applicable “Standards”)

Authoritative bodies include, but are not limited to:

- Securities and Exchange Commission (**SEC**);
- Public Company Accounting Oversight Board (**PCAOB**);
- Financial Accounting Standards Board (**FASB**);
- Governmental Accounting Standards Board (**GASB**);
- Cost Accounting Standards Board (**CASB**);
- Federal Accounting Standards Advisory Board (**FASAB**);
- U.S. Governmental Accountability Office (**GAO**);
- Federal Office of Management and Budget (**OMB**);
- Internal Revenue Service (**IRS**);
- American Institute of Certified Public Accountants (**AICPA**), and
- **Federal, state, and local audit, regulatory and tax agencies.**

Such **standards** include:

- Professional Code of Conduct issued by the **AICPA** including interpretations and ethics rulings;
- ALL other Standards and related Interpretations issued by the **AICPA**, including **AICPA** Industry Audit and Accounting Guides;
- **Governmental Auditing Standards issued by the U.S. Governmental Accountability Office (the “Yellow Book”);**
- **Standards issued by the PCAOB**
- **SEC Rules, Concept Releases, Interpretative Releases, and Policy Statements;** Statements on Governmental Accounting and Financial Reporting Standards issued by GASB;
- Statements of Financial Accounting Standards and Interpretations, and Staff Positions issued by FASB, together with those Accounting Research Bulletins and Accounting Principles Board Opinions which are not superseded by action of the FASB;
- **IRS Circular 230; and**
- Any additional national or international standards recognized by the AICPA, PCAOB, SEC and/or GAO.

NOTE: Both Treasury Circular 230 and Chapter 26 USC, Sec. 7216 prohibit disclosure of tax return information provided to prepare a tax and tax returns without consent of the client or court order. A peer review exception is provided in Sec. 7216.

Overview of WAC 4-30-048 (Continued)

If the professional services are governed by standards not listed above, individuals and firms including persons exercising practice privileges under RCW [18.04.350\(2\)](#) who offer or render professional services in this state or for clients located in this state and the firms rendering professional services in this state or for clients located in this state through such qualifying individuals must:

- (a) Maintain documentation of the justification for the departure from the listed standards;
- (b) Determine and document what standards are applicable; and
- (c) Demonstrate compliance with the applicable standards.

FACTS and Assumptions

- You are a licensee, member of the AICPA, and an employee of a governmental entity in the State of Washington.
- You are asked by the governing authority of your employer to conduct what they refer to as an “Internal Audit” which is either an Internal Control Review or an Investigation specific to a discrete transaction stream to determine if theft has occurred.
- The governing body wants a report signed by you as a CPA at the end of the assignment.
- You recognize that some assurance will be ascribed to your report if you sign the report as a CPA.

QUERY:

1. As a licensee can you perform the assignment?

The Public Accountancy Act and Board Rules do not apply to a CPA serving as an official or employee of a governmental entity (RCW18.04.350(11)). Therefore, the answer is YES.

2. What Standard(s) would be applicable?

Whatever published professional standards or state or federal guidelines applicable to the nature of the services you believe are most appropriate. For Example: Standards of the Institute of Internal Auditors, Forensic Standards published by the AICPA, etc.

Overview of the Interaction of Board Rules with the AICPA Code

The following material is intended to overview certain provisions of the the AICPA Code of Professional Conduct and compare that guidance to the similar Board Rule

Composition, Applicability and Compliance

The Code of Professional Conduct of the American Institute of Certified Public Accountants consists of two sections—(1) the Principles and (2) the Rules. **The Principles provide the framework for the Rules**, which govern the performance of professional services by members. The Council of the American Institute of CPAs is authorized to designate bodies to promulgate technical standards under the Rules, and the [Bylaws](#) require adherence to those Rules and standards.

The Code of Professional Conduct was adopted by the membership to provide guidance and rules to **all members—those in public practice, industry, government and education**—in the performance of their professional responsibilities.

Compliance with the Code of Professional Conduct, as with all standards in an open society, depends PRIMARILY on members' understanding and voluntary actions, secondarily on reinforcement by peers and public opinion, and ultimately on disciplinary proceedings, when necessary, against members who fail to comply with the Rules.

AICPA Code Sections & Selected Interpretations

[Section 100 - Independence, Integrity and Objectivity](#)

Rule 101—Independence.

A member in public practice shall be independent in the performance of professional services as required by standards promulgated by bodies designated by Council.

[As adopted January 12, 1988.]

Interpretation Rule 101-1

In performing an attest engagement, a member should consult the rules of his or her state board of accountancy, his or her state CPA society, the Public Company Accounting Oversight Board and the U.S. Securities and Exchange Commission (SEC) if the member's report will be filed with the SEC, the U.S. Department of Labor (DOL) if the member's report will be filed with the DOL, the Government Accountability Office (GAO) if law, regulation, agreement, policy or contract requires the member's report to be filed under GAO regulations, and any organization that issues or enforces standards of independence that would apply to the member's engagement.

Such organizations may have independence requirements or rulings that differ from (e.g., may be more restrictive than) those of the AICPA.

Independence shall be considered to be impaired if:

- A. During the **period of the professional engagement** a **covered member**
 1. Had or was committed to acquire any direct or material indirect financial interest in the **client**.
 2. Was a trustee of any trust or executor or administrator of any estate if such trust or estate had or was committed to acquire any direct or material indirect financial interest in the client and
 - i. The covered member (individually or with others) had the authority to make investment decisions for the trust or estate; or
 - ii. The trust or estate owned or was committed to acquire more than 10 percent of the client's outstanding equity securities or other ownership interests; or
 - iii. The value of the trust's or estate's holdings in the client exceeded 10 percent of the total assets of the trust or estate.
 3. Had a **joint closely held investment** that was material to the covered member

Interpretation Rule 101-1 (Continued)

4. Except as specifically permitted in interpretation 101-5 [\[ET section 101.07\]](#), had any **loan** to or from the client, any officer or director of the client, or any individual owning 10 percent or more of the client's outstanding equity securities or other ownership interests.
- B. During the period of the professional engagement, a **partner** or professional employee of the **firm**, his or her **immediate family**, or any group of such persons acting together owned more than 5 percent of a client's outstanding equity securities or other ownership interests.
- C. During the period covered by the **financial statements** or during the period of the professional engagement, a firm, or partner or professional employee of the firm was simultaneously associated with the client as a(n)
 1. Director, officer, or employee, or in any capacity equivalent to that of a member of management;
 2. Promoter, underwriter, or voting trustee; or
 3. Trustee for any pension or profit-sharing trust of the client.
- D. In the performance of any professional service, a member shall maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others.

[As adopted January 12, 1988.]

Board Rule 4-30-042

When is independence required?

Remember:

AICPA Interpretation 101-1 Applies to Covered Members of the AICPA.

Board Rule WAC 4-30-042 Applies to Licensees.

- (1) To comply with all applicable independence rules, regulations, and the AICPA code of conduct as referenced in and required by WAC [4-30-048](#); and
- (2) **To decline engagements for which a report expressing assurance is prescribed by professional standards when such persons (*Individuals and/or Firms, and their professional employees*) have a relationship that could lead a reasonable and foreseeable user to conclude that such persons are not independent.**



Conclusion

The AICPA Code of Professional Conduct generally provides that **a violation of a state or federal statute or regulation is a violation the AICPA Code of Professional Conduct.**

Board Rule, WAC 4-30-048, citing compliance the AICPA Code, and the Board's *Disciplinary* Rule, WAC 4-30-142, clearly establish that **a violation of the AICPA Code** or its interpretations is generally **a violation of Board Rules.**

This equals “DOUBLE TROUBLE”

(2) QUERY:

What is the major difference between Board Rule and AICPA Guidance on Independence for Attest (Assurance) services?

Board Rule requires an “Individual, Personal Decision”

Issue #2

FACTS and Assumptions:

- You are a member of the AICPA and a Licensee in Washington State;
- You have served as the contract auditor for a specific grant to a governmental agency for 10+ years;
- The agency is also subject to federal audit of the grant.
- The grant manager questions your independence midway through the audit but the agency head objects on the basis of duplicate costs to the grant and the agency.
- The grant manager retracts his objection if a new auditor is engaged for the next audit.

Queries:

Can the “Can you Un-Ring the Bell” after your independence is questioned?

In the author’s Opinion the answer is

NO

AICPA Interpretation 102-2- Conflicts of interest.

A conflict of interest may occur if a member performs a professional service for a client or employer and the member or his or her firm has a relationship with another person, entity, product, or service that could, **in the member's professional judgment, be viewed by the client, employer, or other appropriate parties as impairing the member's objectivity.**

If the member believes that the professional service can be performed with objectivity, **and the relationship is disclosed to and consent is obtained from such client, employer, or other appropriate parties**, the rule shall not operate to prohibit the performance of the professional service.

- A. **Certain professional engagements, such as audits, reviews, and other attest services, require independence.**
- B. **Independence impairments under rule 101 [ET section 101.01], its interpretations, and rulings cannot be eliminated by such disclosure and consent.**
- C. **When making the disclosure, the member should consider Rule 301, Confidential Client Information [ET section 301.01].**

Board Rule WAC 4-30-142

PROHIBITED Conflicts of Interest-

(a) **Self-Dealing as a trustee**, including, but not limited to:

- (i) *Investing trust funds in entities controlled by or related to the trustee;*
- (ii) *Borrowing from trust funds, with or without disclosure; and*
- (iii) ***Employing persons related to the trustee or entities in which the trust has a beneficial interest to provide services to the trust (unless specifically authorized by the trust creation document).***

(b) **Borrowing funds from a client** unless the client is in the business of making loans of the type obtained by the licensee, as defined in WAC 4-30-010, CPA-Inactive certificate holder, or nonlicensee firm owner and the loan terms are not more favorable than loans extended to other persons of similar credit worthiness.

REMEMBER

More Restrictive Board Rules PREVAIL!

Certain More Restrictive Board Rules

<u>Topic</u>	<u>RCW 18.04 WAC 4-30</u>	<u>AICPA Guidance</u>	<u>Variance</u>
Independence Board More Restrictive	4-30-010(24); 4-30-042	ET Interpretation 101-1 Fact & Appearance of "Covered Members" of the engagement team.	The Board rule requires all members of the engagement team to assess their personal objectivity/skepticism irrespective of the AICPA Covered member guidance and remove his-self or herself or be removed by the firm from the engagement by the firm if individual objectivity/skepticism is impaired.
Conflicts of Interest Board More Restrictive	18.04.055(2); 4-30-040; 4-30-142(9)	ET 102 & Interpretations	Self-Dealing as a trustee or BORROWING FROM a client is (generally) PROHIBITED by Board Rule. <i>However, if the client is in the business of regularly lending money, the AICPA Rule would apply for independence purposes.</i>
Engagement and Continuing Competency Board More Restrictive	Various RCW 18.04 4-30-046	ET 201 & Int. 201-1	Generally consistent with exception for CPE. Board Rule 4-30-134(3) requires 4 hours of Board approved Ethics & Regulation in WA State during (and completed by December 31 of) the year preceding the calendar year of renewal.
Confidential Client Information Board More Restrictive	18.04-390/405 4-30-050	ET 301 & Interpretations	Generally consistent AICPA Rule 301 refers to current and former clients WAC 4-30-050 also includes prospective clients.

			Generally consistent
Acts Discreditable	4-30-051	Rule 501	EXCEPT that AICPA Interpretation 501-1 , <i>Client Requests for Records, permits withholding records for payment of fees;</i> WAC 4-30-051 does not permit withholding for unpaid fees. However, AICPA further states a violation of Board requirements is a violation of the AICPA Code.
	18.04.295		
	18.04.380		
	4-30-142		
It's a DRAW			

TITLE USE:

AICPA says:

A member who fails to follow the accountancy laws, rules, and regulations regarding the use of the CPA credential in all the jurisdictions in which the CPA practices would be considered to have used the CPA credential in a manner that is **false, misleading, or deceptive and in violation of Rule 501 [sec. 501 par. .01].**

[Added March 2013, effective May 31, 2013.]

The Public Accountancy Act (RCW 18.04.380) allows the Board to stop unlawful title use by judicial action if appropriate, e.g. seek an injunction (RCW 18.04.360; Cease and Desist action) or file a lawsuit alleging a Misdemeanor (RCW 18.04.370).

**However, by statute, the Board may elect to enter into a Stipulated Agreement and Order of Assurance
For First-Time Violations of the ACT**

SUMMARY for this portion of the materials

A military commander when relieved of his duties as a result of a Command Decision he made AND that was implemented in the Mid-East Theatre made the following public comment:

The Simplicity of Military Command is:

The Commander is Responsible for Everything.

The Complexity of Military Command is:

The Commander is Responsible for Everything.

The Person in the Mirror,

YOU, as a CPA, become that Commander!

Hopefully

You will continue to recognize that the
SIMPLICITY of Regulatory Compliance is

INTEGRITY

**Place the publics' interest(s) ahead of your employee's or clients' self-interest(s) or demands;
Be honest and forthright with your employers and clients;**

OBJECTIVITY & INDEPENDENCE

**Apply Professional Skepticism;
Don't give advice or reach judgments without a solid basis for your professional views;**

COMPETENCY

Maintain Continuing Competency through life-long learning;

CONFIDENTIALITY

Be "Closed Mouthed" about employer or client matters;

Furthermore, throughout your career, YOU personally must
continually recognize,

ETHICAL BEHAVIOR and COMPETENT PERFORMANCE is the PERSONAL CHOICE
of the
“PERSON IN THE MIRROR”

NONCOMPLIANT-UNETHICAL BEHAVIOR
AFFECTS NOT ONLY YOU BUT ALSO PUBLIC CONFIDENCE IN

Aproximately 650,000 to 700,000 other Individual Members of this Profession
Your Clients and/or Employers
The Future of this Respected Profession

YOUR Acceptance of Public Responsibility may prove to be a Catalyst for
Future Reduction in the COMPLEXITY of Regulation.

Review Questions

1. **You can use the title “CPA”:**
 - A. Immediately upon passing the Uniform CPA Examination.
 - B. When your Hard-Copy Certificate and License are received in the mail.
 - C. When your status is posted on the Board’s licensee search database and made available to the public.
 - D. Only after you have become a member of a volunteer membership organization.

2. **To obtain initial recognition (license) by the Washington State Board of Accountancy you must have had the opportunity through workplace experience to gain certain competencies. Your work experience requirements are::**
 - A. The dates you worked must cover a 12 month period (not necessarily consecutive)
 - B. The workplace experience must have occurred within the 8 years prior to the date the board receives your application.
 - C. Must have been obtained in the practice of public accounting working for a CPA firm.
 - D. You must also have worked a minimum of 2,000 workplace hours.
 - E. All of the above
 - F. A, B, and D

3. **Your title use and practice privileges in Washington State must be renewed every three years beginning with the date that you became initially qualified and ending three years later on the same date.**
 - A. True
 - B. False

4. **Whether or not you are independent for purposes of serving as a member of an audit team is governed solely by the SEC or, for non-public companies, the AICPA Code of Professional Conduct.**
 - A. True
 - B. False

Review Questions (Continued)

5. An individual obtains an individual Washington license and practices as a sole proprietor using the name Jack Spratt, CPA. The CPA renders only Federal income tax return preparation services to the public. Must Jack also obtain a firm license?

- A. Yes
- B. No

6. You must timely report a change of physical address to the Board within 20 days of the date you left the original address.

- A. True
- B. False

7. You must also timely report charges filed by any state or federal regulatory body or foreign credentialing authority to the Board within 30 days of receipt of an initial notice by the such authority.

- A. True
- B. False

8. You have no remedy through the state's judicial system if you are found guilty of a violation of the Public Accountancy Act or Board Rules as the outcome of a Public Board Hearing.

- A. True
- B. False

9. Concealing another person's violation of the Public Accountancy Act or Board Rules can result in Board disciplinary action.

- A. True
- B. False

10. Certain violations of the Public Accountancy Act or Board Rules can result in judicial prosecution.

- A. True
- B. False

Section II

WASHINGTON IS A TWO TIER STATE

- A **LICENSEE** IS A PERSON WHO CAN USE THE TITLE CPA AND **OFFER OR PERFORM PUBLIC ACCOUNTING SERVICES TO THE PUBLIC.**
- **CPA-INACTIVE** IS A **TITLE USE ONLY** PROVISION IN THE PUBLIC ACCOUNTANCY ACT.

PUBLIC ACCOUNTING

IS

PERFORMING FOR A CLIENT OR **OFFERING** TO A POTENTIAL CLIENT
ONE OR MORE KINDS OF SERVICES INVOLVING THE USE OF
ACCOUNTING OR AUDITING SKILLS

INDIVIDUALS IN EACH CREDENTIAL CATEGORY
AS WELL AS NON-CPA FIRM OWNERS AND PROFESSIONAL EMPLOYEES OF SUCH PERSONS
ARE GOVERNED BY THE ACT AND BOARD RULES
TO THE EXTENT APPLICABLE.

Applicability of certain Board Policies
to non-licensees, including CPA-Inactive certificateholders

**Board Policy 2003-1, Safe Harbor Report Language for Use by
Non-CPAs***

RCW 18.04.350 (10) states that persons or firms composed of persons not holding a license (i.e., non-CPAs) may offer or render certain services to the public, including the preparation of financial statements and written statements describing how such financial statements were prepared, provided they do not:

- *Designate any written statement as an “audit report,” “review report,” or “compilation report,”*
- *Issue any written statement which purports to express or disclaim an opinion on financial statements which have been audited, and*
- *Issue any written statement which expresses assurance on financial statements which have been reviewed.*

Policy Statement

CPA-Inactive certificate holders may **not** use the ‘CPA-Inactive’ title **when performing or offering accounting, tax, tax consulting, and management advisory, or similar services to the public.**

CPA-Inactive certificate holders are prohibited from using the safe harbor language **concurrent with use of the title “CPA-Inactive”.**

This policy includes the following examples of “Safe Harbor” report language for “non-CPAs” when attaching a letter to financial statements prepared for “clients” by such unlicensed individuals or business organizations.

Applicability of certain Board Policies to non-licensees, including CPA-Inactive certificateholders (Continued)

Safe harbor report language Sample #1:

The accompanying balance sheet of ABC Company, as of December 31, 1988 and related statement of income for the year then ended have been prepared by me (us).

These statements have been prepared from information furnished by management (owner), and accordingly, I do not express any assurance on them.

Safe harbor report language Sample #2:

The accompanying balance sheet of ABC Company, as of December 31, 1988 and related statement of income for the year then ended have been prepared by me (us).

My engagement was limited to presenting in the form of financial statements information that is the representation of management (owner), and accordingly, I do not express any assurance on them.

Applicability of certain Board Policies to non-licensees, including CPA-Inactive certificateholders (Continued)

Board Policy 2002-2 Expert Witness Services

This policy provides guidance to credentialed persons (CPA and CPA-Inactive certificateholders) regarding the licensing or notification requirements for performing expert witness engagements in the state of Washington.

Requirements for individuals Licensed by the Washington Board of Accountancy

Expert witness services may be performed by a licensed CPA using the title "CPA" in organizations other than CPA firms.

Requirements for Washington State CPA-Inactive Certificate holders

CPA-Inactive certificate holders may use the title CPA-Inactive when performing or offering to perform expert witness services *unless the service is related to the following or similar activities, skills, or services:*

- Accounting
- Auditing including the issuance of "audit reports," "review reports," or "compilation reports" on financial statements,
- Management advisory,
- Consulting services,
- Preparing of tax returns, or
- Furnishing advice on tax matters.

CPA-Inactive certificate holders who testify on another matter (*not related to the services, skills, or activities identified above*) may use the title "CPA-Inactive" as mandated by RCW 18.04.105 **provided they advise the court that they hold a Washington state CPA-Inactive certificate and they do not hold a Washington state CPA license to practice public accountancy.**

Nothing in this policy is intended to preclude an individual from testifying as a "fact" witness.

QUERY:

**Assume you are from out-of-state but hold a CPA license from Idaho.
Can you testify as an "Expert Witness in Washington"?**

YES.

Idaho is a "Substantially Equivalent State". Under "mobility" you are qualified to "exercise practice privileges" in Washington State without a license in this state.

AICPA and Board Comparison

For purposes of this presentation the following outlines and/or excerpts the AICPA Code of Professional Conduct and compares that guidance to the similar Board Rule

Composition, Applicability and Compliance

The Code of Professional Conduct of the American Institute of Certified Public Accountants consists of two sections—(1) the Principles and (2) the Rules. **The Principles provide the framework for the Rules**, which govern the performance of professional services by members. The Council of the American Institute of CPAs is authorized to designate bodies to promulgate technical standards under the Rules, and the **Bylaws** require adherence to those Rules and standards.

The Code of Professional Conduct was adopted by the membership to provide guidance and rules to **all members—those in public practice, industry, government and education**—in the performance of their professional responsibilities.

Compliance with the Code of Professional Conduct, as with all standards in an open society, depends primarily on members' understanding and voluntary actions, secondarily on reinforcement by peers and public opinion, and ultimately on disciplinary proceedings, when necessary, against members who fail to comply with the Rules.

Other Guidance (in part)


Interpretations of Rules of Conduct consist of interpretations which have been adopted, after exposure to state societies, state boards, practice units and other interested parties, by the professional ethics division's executive committee to provide guidelines as to the scope and application of the Rules but are not intended to limit such scope or application. A member who departs from such guidelines shall have the burden of justifying such departure in any disciplinary hearing. Interpretations which existed before the adoption of the Code of Professional Conduct on January 12, 1988, will remain in effect until further action is deemed necessary by the appropriate senior technical committee.

Ethics Rulings consist of formal rulings made by the professional ethics division's executive committee after exposure to state societies, state boards, practice units and other interested parties. **These rulings summarize the application of Rules of Conduct and Interpretations to a particular set of factual circumstances.** Members who depart from such rulings in similar circumstances will be requested to justify such departures. Ethics Rulings which existed before the adoption of the Code of Professional Conduct on January 12, 1988, will remain in effect until further action is deemed necessary by the appropriate senior technical committee.

A member should also consult the ethical standards, if applicable.

Section 50 - Principles of Professional Conduct

- Section 51 - Preamble
- Section 52 - Article I: Responsibilities
- Section 53 - Article II: The Public Interest
- Section 54 - Article III: Integrity
- Section 55 - Article IV: Objectivity and Independence
- Section 56 - Article V: Due Care
- Section 57 - Article VI: Scope and Nature of Services



A member should consult with his or her state CPA society, **state board of accountancy**, the Securities and Exchange Commission, and any other governmental agency which may regulate his or her client's business or use his or her report to **evaluate the client's compliance with applicable laws and related regulations.**

Rule 501—Acts discreditable.

A member shall not commit an act discreditable to the profession.

18.04 RCW & WAC 4-30 The Public Accountancy Act, Chapter 18.04 RCW, and Board Rules WAC 4-30 encompass and expand on AICPA Rules 501 and Interpretations 501-1 through 501-11.

AICPA Interpretation 102-2- Conflicts of interest.

A conflict of interest may occur if a member performs a professional service for a client or employer and the member or his or her firm has a relationship with another person, entity, product, or service that could, **in the member's professional judgment, be viewed by the client, employer, or other appropriate parties as impairing the member's objectivity.**

If the member believes that the professional service can be performed with objectivity, **and the relationship is disclosed to and consent is obtained from such client, employer, or other appropriate parties**, the rule shall not operate to prohibit the performance of the professional service.

- D. Certain professional engagements, such as audits, reviews, and other attest services, require independence.**

BE AWARE

Conflicts might be identified or the conflicting issue brought forth:

- *Before **or** at the time of engagement;*
- *During the performance of the engagement;*
- *After completion of the engagement.*

E. Independence impairments under rule 101 [ET section 101.01], its interpretations, and rulings cannot be eliminated by such disclosure and consent.

F. When making the disclosure, the member should consider Rule 301, Confidential Client Information [ET section 301.01].

Interpretation 102-2 (Continued)

The following are examples, not all-inclusive, of situations that should cause a member to consider whether or not the client, employer, or other appropriate parties could view the relationship as impairing the member's objectivity:

- *A member has been asked to perform litigation services for the plaintiff in connection with a lawsuit filed against a client of the member's firm.*
- *A member has provided tax or personal financial planning (PFP) services for a married couple who are undergoing a divorce, and the member has been asked to provide the services for both parties during the divorce proceedings.*
- *In connection with a PFP engagement, a member plans to suggest that the client invest in a business in which he or she has a financial interest.*
- *A member provides tax or PFP services for several members of a family who may have opposing interests.*
- *A member has a significant financial interest, is a member of management, or is in a position of influence in a company that is a major competitor of a client for which the member performs management consulting services.*
- *A member serves on a city's board of tax appeals, which considers matters involving several of the member's tax clients.*
- *A member has been approached to provide services in connection with the purchase of real estate from a client of the member's firm.*
- *A member refers a PFP or tax client to an insurance broker or other service provider, which refers clients to the member under an exclusive arrangement to do so.*
- *A member recommends or refers a client to a service bureau in which the member or partner(s) in the member's firm hold material financial interest(s).*

The above examples are not intended to be all-inclusive.

[Replaces previous interpretation 102-2, Conflicts of Interest, August 1995, effective August 31, 1995.]

Board Rule 4-30-040

What are the requirements concerning integrity and objectivity?

In all professional matters you must:

- Remain honest and objective;
- Not misrepresent facts;
- Not subordinate their judgment to others; and
- **Remain free of conflicts of interest unless such conflicts are specifically permitted by board rule or professional standards listed in WAC [4-30-048](#).**



IF THE LANGUAGE OF
PROFESSIONAL STANDARDS DIFFER FROM BOARD RULES
BOARD RULES PREVAIL

What are the requirements concerning integrity and objectivity? (Continued)

Queries:

1. What is meant by a “conflict of Interest(s)”?

A conflict of interest exists when two or more parties have opposing interests and a desire for different outcomes.

2. Does disclosure “REALLY FREE YOU” from the conflict?

The author does not believe so.

But, if the clients consent to your services in recognition of their conflict, your defense against potential legal risk is reduced.

However, you as a CPA must ensure that you do not favor or act to favor one or more of the parties, i.e. are you capable under the circumstances given the possible outcomes to maintain your integrity and objectivity.

Interpretation 102-3—Obligations of a member to his or her employer's external accountant.

Under rule 102 [[ET section 102.01](#)], a member must maintain objectivity and integrity in the performance of a professional service.

In dealing with his or her employer's external accountant, a member must be:

- *Candid*
- *Not Knowingly misrepresent facts or*
- *Knowingly fail to disclose material facts.*

This would include, for example,
Truthfully and Fully responding to specific inquiries for which his or her employer's external accountant requests written representation.

[Effective November 30, 1993.]

Board rules are not that specific. However, consider

[Board Rule WAC4-30-142](#)

This Rule lists examples of **prohibited acts that constitute grounds for discipline**. The listing includes, but not limited to:

- **Dishonesty, Fraud, or Negligence ... such as “making misleading, deceptive, or untrue representations”;**
- **Concealing another’s violation of the Public Accountancy Act or board rules; or**
- **... commission of any act constituting a crime under ... Federal law.**

Federal Law treats
“Lying by Omission”.
(*Deception*)
as a Felony Crime

Board Rule WAC 4-30-046

What are the requirements concerning competence?

... must not undertake to perform any professional service unless can **reasonably expect to complete the service with professional competence.**

AICPA Guidance is more informative and directive and should be considered:

Interpretations under Rule 201 —General Standard.

A member's agreement to perform professional services **implies** that the member:

- ***has the necessary competence to complete those professional services according to professional standards, and***
- ***applying his or her knowledge and skill with reasonable care and diligence, but***
- ***the member does not assume a responsibility for infallibility of knowledge or judgment.***

Competence to perform professional services involves both the technical qualifications of the member and the member's staff and the ability to supervise and evaluate the quality of the work performed.

Competence relates both to knowledge of the profession's standards, techniques and the technical subject matter involved, and to the capability to exercise sound judgment in applying such knowledge in the performance of professional services.

The member may have the knowledge required to complete the services in accordance with professional standards prior to performance. In some cases, however, additional research or consultation with others may be necessary during the performance of the professional services. This does not ordinarily represent a lack of competence, but rather is a normal part of the performance of professional services.

However, if a member is unable to gain sufficient competence through these means, the member should suggest, in fairness to the client and the public, the engagement of someone competent to perform the needed professional service, either independently or as an associate.

Rule 301—Confidential client information.

A member in public practice shall not disclose any confidential client information without the specific consent of the client.

This rule shall not be construed (1) to relieve a member of his or her professional obligations under rules 202 [[ET section 202.01](#)] and 203 [[ET section 203.01](#)], (2) to affect in any way the member's obligation to comply with a validly issued and enforceable subpoena or summons, or **to prohibit a member's compliance with applicable laws and government regulations**, (3) to prohibit review of a member's professional practice under AICPA or state CPA society or Board of Accountancy authorization, or (4) **to preclude a member from initiating a complaint with, or responding to any inquiry made by**, the professional ethics division or trial board of the Institute or a duly constituted investigative or disciplinary body of a state CPA society or **Board of Accountancy**.

Members of any of the bodies identified in (4) above and members involved with professional practice reviews identified in (3) above shall not use to their own advantage or disclose any member's confidential client information that comes to their attention in carrying out those activities.

This prohibition shall not restrict members' exchange of information in connection with the investigative or disciplinary proceedings described in (4) above or the professional practice reviews described in (3) above.

[As amended January 14, 1992.]

REMEMBER

AICPA Interpretation 102-2, Conflicts of Interests states:

When making the disclosure, the member should consider Rule 301, *Confidential Client Information* [[ET section 301.01](#)].

Board Rule 4-30-040

What are the requirements concerning records and client's confidential information?

(1) Client: The term "client" as used throughout WAC [4-30-050](#) and [4-30-051](#) includes former and current clients.

For purposes of this section, a client relationship has been formed when confidential information has been disclosed by a prospective client in an initial interview to obtain or provide professional services.

(2) Sale or transfer of client records: No statement, record, schedule, working paper, or memorandum, including electronic records, may be sold, transferred, or bequeathed without the consent of the client or his or her personal representative or assignee, to anyone other than one or more surviving partners, shareholders, or new partners or new shareholders of the licensee, partnership, limited liability company, or corporation, or any combined or merged partnership, limited liability company, or corporation, or **successor in interest**.

(3) Confidential client communication or information: Licensees, CPA-Inactive certificate holders, nonlicensee firm owners and employees of such persons must not without the specific consent of the client or the heirs, successors, or authorized representatives of the client disclose any confidential communication or information pertaining to the client obtained in the course of performing professional services.

Recently adopted Amendment

This rule also applies to confidential communications and information obtained in the course of professional tax compliance services unless state or federal tax laws or regulations require or permit use or disclosure of such information.

Consents may include those requirements of Treasury Circular 230 and IRC Sec. 7216 for purposes of this rule, provided the intended recipients are specifically and fully identified by full name, address, and other unique identifiers.

Board Rule 4-30-040

What are the requirements concerning records and client's confidential information? (Continued)

(4) This rule does not:

- a) *Affect in any way the obligation of those persons to comply with a lawfully issued subpoena or summons;*
- b) *Prohibit disclosures in the course of a quality review of a licensee's attest, compilation, or other reporting services governed by professional standards;*
 - a. *Preclude those persons from responding to any inquiry made by the board or any investigative or disciplinary body established by local, state, or federal law or recognized by the board as a professional association; or*
 - b. *Preclude a review of client information in conjunction with a prospective purchase, sale, or merger of all or part of the professional practice of public accounting of any such persons.*

Queries:

1. Under Board Rule would a P.S. Corporation be an allowable "Successor in Interest" if that P.S. Corporation acquired the assets of a predecessor CPA firm also organized as a P.S. Corporation?

YES

[Section 400 - Responsibilities to Colleagues](#)

ET Section 400 - Responsibilities to Colleagues

[Reserved.]

**What Priority might this suggest
for our Professional
Responsibility?**

Responsibility to colleagues is implied to be the lowest priority

Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism.

.01

A distinguishing mark of a profession is acceptance of its responsibility to the public. The accounting profession's public consists of clients, credit grantors, governments, employers, investors, the business and financial community, and others who rely on the objectivity and integrity of certified public accountants to maintain the orderly functioning of commerce. This reliance imposes a public interest responsibility on certified public accountants. The public interest is defined as the collective well-being of the community of people and institutions the profession serves.

.02

In discharging their professional responsibilities, members may encounter conflicting pressures from among each of those groups. In resolving those conflicts, members should act with integrity, guided by the precept that when members fulfill their responsibility to the public, clients' and employers' interests are best served.

.03

Those who rely on certified public accountants expect them to discharge their responsibilities with integrity, objectivity, due professional care, and a genuine interest in serving the public. They are expected to provide quality services, enter into fee arrangements, and offer a range of services—all in a manner that demonstrates a level of professionalism consistent with these Principles of the Code of Professional Conduct.

.04

All who accept membership in the American Institute of Certified Public Accountants commit themselves to **honor the public trust**. In return for the faith that the public reposes in them, members should **seek continually to demonstrate their dedication to professional excellence**.

AICPA ET Section 57 - Article VI - Scope and Nature of Services (in Part)

A member in public practice should observe the Principles of the Code of Professional Conduct in determining the scope and nature of services to be provided.

In order to accomplish this, members should

- **Practice in firms that have in place internal quality-control procedures** to ensure that services are competently delivered and adequately supervised.
- **Determine, in their individual judgments**, whether the scope and nature of other services provided to an audit client would **create a conflict of interest in the performance of the audit function** for that client.
- **Assess, in their individual judgments, whether an activity is consistent with their role as professionals.**

[Revised May 15, 2000.]

Rule 501—Acts discreditable.

A member shall not commit an act discreditable to the profession.

18.04 RCW & WAC 4-30

The Public Accountancy Act, Chapter 18.04 RCW, and Board Rules WAC 4-30 encompass and expand on AICPA Rules 501 and Interpretations 501-1 through 501-11 listed in the following pages.

PLEASE NOTE

- The **AICPA** generally provides that a **violation of a state or federal statute or regulation** is a **violation the AICPA Code of Professional Conduct** and
- Board Rule, WAC 4-30-048, citing compliance the AICPA Code, and the Board's *Disciplinary* Rule, WAC 4-30-142, clearly establish that a **violation of the AICPA Code** or its interpretations is a generally a **violation of Board Rules.**

[As adopted January 12, 1988.]

Interpretation 501-1—Response to Requests by Clients and Former Clients for Records.

Terminology

The following terms are defined subsequently solely for use with this interpretation:

- The term **client** includes current and former clients.
- **Client-provided records** are accounting or other records belonging to the client that were provided to the member, by or on behalf of, the client, including hardcopy or electronic reproductions of such records.
- **Member-prepared records** are accounting or other records that the member was not specifically engaged to prepare and that are not in the client's books and records or are otherwise not available to the client, with the result that the client's financial information is incomplete. Examples include adjusting, closing, combining, or consolidating journal entries (including computations supporting such entries) and supporting schedules and documents that are proposed or prepared by the member as part of an engagement (for example, an audit).
- **Member's work products** are deliverables as set forth in the terms of the engagement, such as tax returns.
- **Member's working papers** are all other items prepared solely for purposes of the engagement and include:
 - items prepared by the member, such as audit programs, analytical review schedules, and statistical sampling results and analyses, and
 - items prepared by the client, at the request of the member and reflecting testing or other work done by the member.

Interpretation 501-1 (Continued)

Members must comply with the rules and regulations of authoritative regulatory bodies, such as the member's state board(s) of accountancy, when the member performs services for a client and is subject to the rules and regulations of such regulatory body.

For example, a member's state board(s) of accountancy may not permit a member to withhold certain records notwithstanding fees due to the member for the work performed.

Failure to comply with the more restrictive provisions contained in the rules and regulations of the applicable regulatory body concerning the return of certain records would constitute a violation of this interpretation.

Client-provided records in the member's custody or control should be returned to the client at the client's request.

Unless a member and the client have agreed to the contrary, when a client makes a request for member-prepared records, or a member's work products that are in the custody or control of the member or the member's firm (member) that have not previously been provided to the client, the member should respond to the client's request as follows:

- Member-prepared records relating to a completed and issued work product should be provided to the client, except that such records may be withheld if there are fees due to the member for the specific work product.
- Member's work products should be provided to the client, except that such work products may be withheld
 - **if there are fees due to the member for the specific work product;**
 - **if the work product is incomplete;**
 - for purposes of complying with professional standards (for example, withholding an audit report due to outstanding audit issues); or
 - if threatened or outstanding litigation exists concerning the engagement or member's work.

Once the member has complied with these requirements, he or she is under no ethical obligation to comply with any subsequent requests to again provide such records or copies of such records. However, if subsequent to complying with a request, a client experiences a loss of records due to a natural disaster or an act of war, the member should comply with an additional request to provide such records.

Member's working papers are the member's property and need not be provided to the client under provisions of this interpretation; however, such requirements may be imposed by state and federal statutes and regulations, and contractual agreements.

Interpretation 501-1 (Continued)

In connection with any request for client-provided records, member-prepared records, or a member's work products, the member may

- **charge the client a reasonable fee for the time and expense incurred to retrieve and copy such records and require that such fee be paid prior to the time such records are provided to the client,**
- provide the requested records in any format usable by the client , and
- make and retain copies of any records returned or provided to the client.

The member is not required to convert records that are not in electronic format to electronic format or to convert electronic records into a different type of electronic format. However, if the client requests records in a specific format, and the records are available in such format within the member's custody and control, the client's request should be honored.

In addition, the member is not required to provide the client with formulas, unless the formulas support the client's underlying accounting or other records, or the member was engaged to provide such formulas as part of a completed work product.

Where a member is required to return or provide records to the client, the member should comply with the client's request as soon as practicable but, absent extenuating circumstances, no later than 45 days after the request is made. The fact that the statutes of the state in which the member practices grant the member a lien on certain records in his or her custody or control does not relieve the member of his or her obligation to comply with this interpretation.

[Revised, effective April 30, 2000, by the Professional Ethics Executive Committee. Revised, effective April 30, 2006, by the Professional Ethics Executive Committee. Revised, effective February 28, 2011, by the Professional Ethics Executive Committee. Revised, effective April 30, 2012 by the Professional Ethics Executive Committee.]

Interpretation 501-2—Discrimination and harassment in employment practices.

Whenever a member is finally determined by a court of competent jurisdiction to have violated any of the antidiscrimination laws of the United States or any state or municipality thereof, including those related to sexual and other forms of harassment, or has waived or lost his/her right of appeal after a hearing by an administrative agency, the member will be presumed to have committed an act discreditable to the profession in violation of rule 501 [ET section 501.01].

[Revised, effective November 30, 1997, by the Professional Ethics Executive Committee.]

Interpretation 501-3—Failure to follow standards and/or procedures or other requirements in governmental audits.

Engagements for audits of government grants, government units or other recipients of government monies typically require that such audits be in compliance with government audit standards, guides, procedures, statutes, rules, and regulations, in addition to generally accepted auditing standards. If a member has accepted such an engagement and undertakes an obligation to follow specified government audit standards, guides, procedures, statutes, rules and regulations, in addition to generally accepted auditing standards, he or she is obligated to follow such requirements. Failure to do so is an act discreditable to the profession in violation of rule 501 [ET section 501.01], unless the member discloses in his or her report the fact that such requirements were not followed and the reasons therefor.

Interpretation 501-4—Negligence in the preparation of financial statements or records.

A member shall be considered to have committed an act discreditable to the profession in violation of rule 501 [ET section 501.01] when, by virtue of his or her negligence, such member—

1. Makes, or permits or directs another to make, materially false and misleading entries in the financial statements or records of an entity; or
2. Fails to correct an entity's financial statements that are materially false and misleading when the member has the authority to record an entry; or
3. Signs, or permits or directs another to sign, a document containing materially false and misleading information.

[Revised, effective May 31, 1999, by the Professional Ethics Executive Committee.]

Interpretation 501-5—Failure to follow requirements of governmental bodies, commissions, or other regulatory agencies

Many governmental bodies, commissions or other regulatory agencies have established requirements such as audit standards, guides, rules, and regulations that members are required to follow in the preparation of financial statements or related information, or in performing attest or similar services for entities subject to their jurisdiction. For example, the Securities and Exchange Commission, Federal Communications Commission, state insurance commissions, and other regulatory agencies, such as the Public Company Accounting Oversight Board, have established such requirements.

If a member prepares financial statements or related information (for example, management's discussion and analysis) for purposes of reporting to such bodies, commissions, or regulatory agencies, the member should follow the requirements of such organizations in addition to generally accepted accounting principles. If a member agrees to perform an attest or similar service for the purpose of reporting to such bodies, commissions, or regulatory agencies, the member should follow such requirements, in addition to generally accepted auditing standards (where applicable). A material departure from such requirements is an act discreditable to the profession, unless the member discloses in the financial statements or his or her report, as applicable, that such requirements were not followed and the reasons therefore.

[Effective August 31, 1989. Revised, effective October 31, 2000, by the Professional Ethics Executive Committee. Revised, effective April 30, 2004, by the Professional Ethics Executive Committee.]

Interpretation 501-6—Solicitation or disclosure of CPA examination questions and answers.

A member who solicits or knowingly discloses the May 1996 or later Uniform CPA Examination question(s) and/or answer(s) without the written authorization of the AICPA shall be considered to have committed an act discreditable to the profession in violation of rule 501 [ET section 501.01].

[Effective January 31, 1996. Revised May 1996, by the Professional Ethics Executive Committee.]

Interpretation 501-7—Failure to file tax return or pay tax liability.

A member who fails to comply with applicable federal, state, or local laws or regulations regarding the timely filing of his or her personal tax returns or tax returns of the member's firm, or the timely remittance of all payroll and other taxes collected on behalf of others, may be considered to have committed an act discreditable to the profession in violation of rule 501 [ET section 501.01].

[Effective May 31, 1999.]

Interpretation 501-8—Failure to Follow Requirements of Governmental Bodies, Commissions, or Other Regulatory Agencies on Indemnification and Limitation of Liability Provisions in Connection With Audit and Other Attest Services.

Certain governmental bodies, commissions, or other regulatory agencies (collectively, *regulators*) have established requirements through laws, regulations, or published interpretations that prohibit entities subject to their regulation (*regulated entity*) from including certain types of indemnification and limitation of liability provisions in agreements for the performance of audit or other attest services that are required by such regulators or that provide that the existence of such provisions causes a member to be disqualified from providing such services to these entities. For example, federal banking regulators, state insurance commissions, and the Securities and Exchange Commission have established such requirements.

If a member enters into, or directs or knowingly permits another individual to enter into, a contract for the performance of audit or other attest services that are subject to the requirements of these regulators, the member should not include, or knowingly permit or direct another individual to include, an indemnification or limitation of liability provision that would cause the regulated entity or a member to be in violation of such requirements or that would cause a member to be disqualified from providing such services to the regulated entity. A member who enters into, or directs or knowingly permits another individual to enter into, such an agreement for the performance of audit or other attest services that would cause the regulated entity or a member to be in violation of such requirements, or that would cause a member to be disqualified from providing such services to the regulated entity, would be considered to have committed an act discreditable to the profession.

Members should also consult Ethics Ruling No. 94, "Indemnification Clause in Engagement Letters," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, vol. 2, [ET sec. 191 par. .188–.189](#)) under Rule 101, *Independence* and Ethics Ruling No. 102, "Indemnification of a Client," of ET section 191, *Ethics Rulings on Independence, Integrity, and Objectivity* (AICPA, *Professional Standards*, vol. 2, [ET sec. 191 par. .204–.205](#)) under Rule 101, *Independence*, for guidance related to use of indemnification clauses in engagement letters and the impact on a member's independence.

[Effective July 31, 2008.]

Interpretation 501-9—Confidential Information Obtained From Employment or Volunteer Activities.

A member should maintain confidentiality of his or her employer's or firm's (employer) confidential information and should not use or disclose any confidential employer information obtained as a result of an employment relationship (for example, discussions with the employer's vendors, customers, or lenders). This includes, but is not limited to, any confidential information pertaining to a current or previous employer, subsidiary, affiliate, or parent thereof, as well as any entities for which the member is working in a volunteer capacity. For purposes of this interpretation, *confidential employer information* is any proprietary information pertaining to the employer or any organization for whom the member may work in a volunteer capacity that is not known to be available to the public and is obtained as a result of such relationships.

A member should be alert to the possibility of inadvertent disclosure, particularly to a close business associate or a close or immediate family member. The member should also take reasonable steps to ensure that staff under his or her control or others within the employing organization and persons from whom advice and assistance is obtained are aware of the confidential nature of the information.

When a member changes employment, a member should not use confidential employer information acquired as a result of the prior employment relationship to his or her personal advantage or the advantage of a third party, such as a current or prospective employer. The requirement to maintain confidentiality of an employer's confidential information continues even after the end of the relationship between a member and the employer. However, the member is entitled to use experience and expertise gained through prior employment relationships.

Interpretation 501-9 (Continued)

A member would be considered to have committed an act discreditable to the profession if the member discloses or uses any confidential employer information acquired as a result of employment or volunteer relationships without the proper authority or specific consent of the employer or organization for whom the member may work in a volunteer capacity, unless there is a legal or professional responsibility to use or disclose such information.

The following are examples when members are permitted or may be required to disclose confidential employer information or when such disclosure may be appropriate:

- a. Disclosure is permitted by law and authorized by the employer.
- b. Disclosure is required by law, for example, to
 - i. comply with a validly issued and enforceable subpoena or summons or
 - ii. inform the appropriate public authorities of violations of law that have been discovered.
- c. There is a professional responsibility or right to disclose information, when not prohibited by law, to
 - i. initiate a complaint with, or respond to any inquiry made by, the professional ethics division or trial board of the AICPA or a duly constituted investigative or disciplinary body of a state CPA society, board of accountancy, or other regulatory body;
 - ii. protect the professional interests of a member in legal proceedings;
 - iii. comply with professional standards and other ethics requirements; or
 - iv. report potential concerns regarding questionable accounting, auditing, or other matters to the employer's confidential complaint hotline or those charged with governance.

Members should also consider Interpretation No. 102-4, "Subordination of Judgment by a Member," under Rule 102, *Integrity and Objectivity* [sec. 102 par.05], for additional guidance.

Interpretation 501-10—False, Misleading, or Deceptive Acts in Promoting or Marketing Professional Services.

A member in business who promotes or markets his or her abilities to provide professional services or makes claims about his or her experience or qualifications in a manner that is false, misleading, or deceptive will be considered to have committed an act discreditable to the profession, in violation of Rule 501 [sec. 501 par.01]. A false, misleading, or deceptive promotion includes any claim or representation that would be likely to cause a reasonable person to be misled or deceived. This includes any representation about CPA licensure or any other professional certification or accreditation that is not in compliance with the requirements of the relevant licensing authority or designating body.

[Added August 2011, effective November 30, 2011]

Interpretation 501-11—Use of the CPA Credential.

A member should refer to applicable state accountancy laws and board of accountancy rules and regulations for guidance regarding the use of the CPA credential.

A member who fails to follow the accountancy laws, rules, and regulations regarding the use of the CPA credential in all the jurisdictions in which the CPA practices would be considered to have used the CPA credential in a manner that is false, misleading, or deceptive and in violation of Rule 501 [sec. 501 par.

Overview of the Public Accountancy Act and Board Rules

The Washington State Board of Accountancy was established by statute in 1903. The enabling statute has been amended several time since. In 2001, the statute was significantly amended for the use of the TITLE CPA without restriction. The latest revision was the incorporation of

Promote the reliability of financial and nonfinancial 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.

The amendments in 2001 were intended to:

- **fortify public protection;**
- **establish one set of qualifications to be a licensee;**
- **revise the ownership restrictions for CPA firms;**
- **assure to the greatest extent possible that Washington CPAs have the qualifications to practice in as many states and countries as possible; and**
- **clarify the authority of the Board over licensees and certificateholders.**

Mobility (Interstate Practice) provisions were enacted in 2008 to:

- **allow the Board to more efficiently protect consumers;**
- **facilitate practice mobility; and**
- **facilitate consumer choice.**

CPA Mobility provisions 2008.

The Public Accountancy Act (ACT), Chapter 18.04 RCW, is the enabling legislation and controls.

Board Rules clarify or implement *the ACT*

Where applicable Board Rules generally mirror the terminology of the ACT.

Board Policies inform staff and may be informative for constituents

I. Definitions;

Board Administration, Powers, and Duties:

II. The **authority for the Governor to appoint board members** for up to three successive complete 3 year terms and the board member qualifications:

- 6 licensees who have been licensed in Washington State continuously for the previous ten years; and
- 3 public members.

All three (3) public members must be **qualified to judge** whether **the qualifications, activities, and professional practice** of individual CPAs, CPA-Inactive certificateholders, Non-CPA firm owners, CPA Firms, and employees of such persons **conforms with standards to protect the public interest.**

One of the three public members must also be qualified to represent the interests of the consumer of professional services offered or rendered by licensees.

III. The **authorities, powers, and regulatory duties of the Board En Banc**, *including:*

- *requirement to adopt 15 specific subject matter Rules; and*
- *authority to adopt any other rule necessary and appropriate to implement the ACT, including authority to implement a peer/quality review program for CPA firms.*

IV. The **powers and duties of the Board Officers;**

V. The authority for the **Governor to separately appoint a current licensee as the Executive Director** of the board;

VI. The authority for the Board Chair or a member of the Board or a **board designee** to:

- *conduct investigations, adjudicative, and disciplinary proceedings;*
- *administer oaths and affirmations, subpoena witnesses and compel attendance,;*
- *take testimony, and require authority imposing discipline; and*
- *require that documentary evidence be submitted.*

The Public Accountancy Act, Chapter 18.04 RCW ... (continued)

- VII.** The **responsibilities and duties of the Executive Director of the board**, *including the duty to employ such personnel as is appropriate for implementing the Public Accountancy Act and board rules*;
- VIII.** The **authority of the Board to set all fees related to licensing or registration** including delinquency fees and cost recoveries in disciplinary matters and establishes an account in the state treasury for deposit of all fees;

**The Act further provides that legislative appropriations
from the CPA Fee Account shall account be made only
for the cost of administering the provisions of the Public Accountancy Act;**

- IX.** The authority to **review publicly available work of a licensee on a general or random basis** without any requirement for a formal complaint or suspicion of any impropriety of any particular licensee and proceed under its investigative and disciplinary rules if reasonable grounds exist to conduct a more specific investigation;
- X.** The authority to provide for **consumer alerts and public protection information** to be published regarding persons who violate the Act or board rules and to **provide general consumer protection information to the public**;

The Board's Regulatory Mandate

Recognition (licensing) of only qualified applicants, individuals, CPA firms, including criteria related to;

a) Individuals:

- Applications
- Good Character
- Examination;
- Experience;
- CPE requirements and CPE documentation;
- Reciprocal Licensing;
- Renewals, Lapses, and Reinstatements.
- Permitted Periods of title use
- Renewal periods

b) Firms:

- Applications
- Licensing requirement for any firm, *including sole proprietorships*, with an office in this state issuing reports covered by professional standards **OR** using the title CPA in the firm name **AND** non-resident firms performing audits or examinations for a client with a home office in this state;
- Registration of multiple firm offices in the state, *including licensing of managers of offices operating under the firms master license*;
- Firm ownership requirements, including non-licensee firm owners;
- Permitted legal forms of organization;
- Renewal periods

Board Policies address **reciprocal qualifications** for **out-of-state resident individuals**.

- **Policy 2002-1** *Substantial Equivalency, including Inter-State Reciprocity qualifications*
- **Policy 2002-4** *International Reciprocity qualifications*

Board Policy 2002-1 Substantial Equivalency

Listings of the substantially equivalent states and jurisdictions can be found at
[nasba.org/licensure/substantial equivalency](http://nasba.org/licensure/substantial-equivalency)

This policy provides guidance for:

- **Individuals** applying for a Washington State CPA license under the interstate reciprocity provision of WAC 4-30-092 and
- **CPAs licensed in other jurisdictions** *exercising practice privileges* under RCW 18.04.350(2) and WAC 4-30-090.

Policy Statement:

The Board recognizes the states and jurisdictions identified as “Substantially Equivalent States” by the **National Association of State Boards of Accountancy (NASBA)** for purposes of issuing a Washington State CPA license under the interstate reciprocity provisions of WAC 4-30-092 and exercise of practice privileges under RCW 18.04.350(2)(a);

Individuals who hold a **valid license issued by one of the states deemed “substantially equivalent”** are deemed to meet Washington State’s requirements of Education, Examination, and Experience.

The **qualifications** of individuals **licensed in a state or jurisdiction not deemed substantially equivalent** may be determined by the Board to meet the substantially equivalent requirement.

Board Policy 2002-4 International Reciprocity

This policy **facilitates international reciprocity** for professional accountants by:

- *recognizing accounting credentials issued by the accounting professions of other countries;*
- *specifying reciprocal arrangements for individuals holding a professional accounting designation of other countries seeking a Washington State license; and*
- *adopting a qualifying examination and passing score;*

The Board **recognizes the international accounting credentials** issued by the professional bodies that have established **current mutual recognition agreements (MRA)** with IQAB for purposes of issuing a Washington State CPA license under the international reciprocity provision of RCW 18.04.183.

•

The professional bodies holding mutual recognition agreements may be found at <http://www.nasba.org/international/mra>

The Board **adopts the International Qualifications Examination (IQEX)** prepared and graded by the AICPA as the appropriate examination to test the knowledge of subject matter unique to the United States for those applicants holding an accounting credential issued by professional credential institutes that have established current mutual recognition agreements (MRA) with IQAB.

The Board will continue to recognize passing grades from the predecessor Canadian Chartered Accountant Uniform CPA Qualification Examination (CAQEX).

Sets the passing score for the IQEX (and its CAQEX predecessor) at 75.

SYNOPSIS of RCW 18.04.183 Accountants from Foreign Countries

The Washington State Board of Accountancy will recognize for licensure individuals holding an accounting credential issued by foreign professional credential institutes that have established Multiple Recognition Agreements with NASBA/IQUAB (MRAs) under the following conditions:

- *The individual's credential is of the type requiring the most stringent qualifications if more than one type of credential is issued in the home country;*
- *The individual successfully completes a written examination with a passing grade of 75 on subject matter unique to the United States administered by the National Association of State Boards of Accountancy (NASBA/IQUAB/IQEX Examination);*
- *The individual's credential is in good standing at the time of the application; and*
- *The applicant has one year of public accounting experience within eight years prior to application for recognition in Washington State or such other experience or employment which the Board regards as substantially equivalent.*

The Board's Disciplinary Authority and Statutory Directives

For any of the specific causes listed in the statute, **the power to:**

- revoke, suspend, or refuse to issue, renew, or reinstate a license or certificate;
- impose a fine in an amount not to exceed thirty thousand dollars plus the board's investigative and legal costs in bringing charges against a certified public accountant, a certificate holder, a licensee, a licensed firm, an applicant, a non-CPA, or a nonlicensee holding an ownership interest in a licensed firm;
- impose full restitution to injured parties;
- prohibit a nonlicensee from holding an ownership interest in a licensed firm; or
- impose conditions precedent to renewal of a certificate or a license.

The authority to enter into **consent agreements** with regulated and unregulated persons who violate the ACT or board rules **for the first time**.

Subsequent violations by a specific person are to be formally referred to the prosecuting attorney of the county in which the person resides for apprehension and /or the initiation of appropriate proceeding:

- Any person who violates any provision of the ACT is guilty of a Misdemeanor and, upon conviction, **SHALL** be subject to a **fine** of not more than **\$30,000**, or to **imprisonment** for not more than **6 months or both**; and
- **Any person who uses a professional title** intended to deceive the public *having previously entered into a stipulated and agreed order of assurance with the board OR whose license or certificate was suspended or revoked by the board AND uses the CPA professional title to deceive the public* is guilty of a Class C felony and, upon conviction, **SHALL** be subject to a **fine** of not more than **\$30,000**, or to **imprisonment** for not more than **2 years or both**.

The Board's Disciplinary Authority and Statutory Directives (Continued)

- If, in the judgment of the board **any person has engaged, or is about to engage**, in any acts or practices which constitute, or will constitute, a violation of this chapter, the **board may seek an order enjoining such acts or practices and upon a showing by the board that such person has engaged, or is about to engage, in any such acts or practices, an injunction, restraining order, or such other order as may be appropriate may be granted by such court.**
- *Subject only to a brief adjudicative proceeding (BAP)*, the board **SHALL suspend** the license or certificate of, AND issue a finding of non-payment or default to, any person who has been **certified by a lending agency and reported to the board for nonpayment or default** on a federally or state-guaranteed educational loan or service-conditional scholarship.

The license or certificate **SHALL NOT BE REINSTATED** *until the board receives a written release from the lending agency that payments are being made in accordance with a repayment agreement approved by the lending agency.*

Reinstatement shall be automatic upon receipt of the notice and payment of the reinstatement fee.


- The Board **SHALL immediately suspend** the certificate or license of a person who has been certified by DSHS for non-compliance with a support order or a residential or visitation order.

Upon receipt of a compliance release from DSHS, reinstatement SHALL be automatic.

The Board's Disciplinary Authority and Statutory Directives (Continued)

Any and all displays of the titles CPA or CPA-Inactive or abbreviations thereof shall be **prima facie evidence** that:

- **The person** whose name is displayed **caused or procured the display**; and, accordingly,
- **The person is holding out as a licensee or certificateholder.**



In any (board) action under this (advertising) section,
“evidence of the commission of a single act prohibited by this chapter is sufficient to justify an injunction or a conviction without evidence of a general course of conduct”.

RCW 18.04.380

Other Provisions of the ACT

- **Practices NOT Prohibited**, including:
 - a. Individuals not holding a license or not qualified for practice privileges **may serve as an employee of a firm but may not issue reports on financial or other information over her or his name;**
 - b. **Interstate Practice mobility;**
 - c. **Any act or the use of any words by a public officials or a public employee in the performance of official duties is not prohibited;**
 - d. Use of the title CPA-Inactive is permitted; and
 - e. The title **EA (Enrolled Agent)** for qualified individuals authorized by the U.S. Treasury Department or other titles or designations authorized by a nationally recognized entity sanctioning the use of such titles or designations **is permitted if included in Board Rule.**

- **Confidentiality of Client Records and Information**
 - a. Work papers related to client services made by a licensee are the property of the licensee except:
 - reports submitted by the licensee;
 - work papers subject to an express agreement with the client;
 - b. Client or former **client consent is required** to sell or transfer records, or disclose confidential client information unless the disclosure or transfer is:
 - To Successor(s) in interest;
 - Incidental to Board Investigations;
 - Incidental to Adjudicative proceedings;
 - Required by law, legal process, other standards of the profession, or subject to legal subpoena for federal or state investigations, public hearings, or other proceedings;
 - Part of a licensee's defense to a court action or administrative proceeding; or
 - **Temporarily to reviewers for purposes of executing peer review or quality assurance procedures.**

IMPORTANT

SEE Next Page re Peer Review Confidentiality and Protections

... the proceedings, records, and work papers of a review committee shall be privileged and shall not be subject to discovery, subpoena, or other means of legal process or introduction into evidence in any civil action, arbitration, administrative proceeding, or board proceeding

AND

No member of the review committee or person who was involved in the peer review process shall be permitted or required to testify in any such civil action, arbitration, administrative proceeding, or board proceeding as to any matter produced, presented, disclosed, or discussed during or in connection with the peer review process, or as to any findings, recommendations, evaluations, opinions, or other actions of such committees, or any members thereof.

Information, documents, or records that are publicly available are not to be construed as immune from discovery or use in any civil action, arbitration, administrative proceeding, or board proceeding merely because they were presented or considered in connection with the quality assurance or peer review process.

Other Relevant State Statutes

1. **Falsifying accounts:** Chapter 9A.60 RCW

2. **Administrative Procedures Act (APA)** Chapter 34.05 RCW

The APA has five (5) Parts. The most significant to YOU are:

- 1) Part II - Public Access to Board Rules – www.cpaboard.wa.gov/resources;
- 2) Part III - Rule Making – Three (3) Steps
- 3) Part IV – Adjudicative Proceedings (*The Boards’ Disciplinary Hearing requirements*)
- 4) Part V – Judicial Review and Civil Enforcement

3. Open Public Meetings Act

Chapter 42.30 RCW

4. Public Records Act

Chapter 42.56 RCW



You might also want to discuss court decisions related to these statutes with your legal counsel.

Judicial Decisions can drive Rule Changes

Board Policies

POLICY STATEMENT:

Board rules should be developed to promote and enhance a *credentialed person's* personal qualities, and

- ensure that violations of the forgoing principles are adequately addressed; and
- ensure that **violators of the public trust** receive appropriate discipline on a **“fair and equitable”** basis in the process of implementing Board rules.

Board Policies

inform the Executive Director and agency staff of Board Expectations

- [2000-1](#) - Continuing Professional Education and Licensing Requirements
- [2002-1](#) - Substantially Equivalent Jurisdictions
- [2002-2](#) - Expert Witness Services
- [2002-4](#) - International Reciprocity)
- [2003-1](#) - Safe Harbor Report Language for Use by Non-CPAs
- [2004-1](#) - Sanction and Penalty Guidelines
- [2004-2](#) - Exam Applicant Disability Documentation and Testing Modification Guidelines
- [2011-1](#) - Principles Underlying Board Rules
- [2011-2](#) - Interim Policy Guidelines Pending Rule Changes
- [2012 - 1](#) - Social Media

**Most Board Policies will be discussed
in conjunction with the related Board Rule(s) or Subject Matter**

Board Policy: 2011-1 Principles Underlying Board Rules

The purpose of this policy is to provide and communicate the Board's principles underlying the development and implementation of Board rules.

PRINCIPLES:

Board rules are intended to promote the following professional obligations:

- (1) **Serve the public interest** -A person representing oneself as a CPA, CPA-Inactive certificateholder, or using the CPA or CPA-Inactive title, CPA firms or firm owner and professional employees of such persons must accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate a commitment to professionalism.
- (2) **Exercise Reasoned Professional Judgment** -In carrying out their responsibilities, a person representing oneself as a CPA, CPA-Inactive certificateholder or firm owner and professional employees of such persons must exercise reasoned professional judgment in all their activities.
- (3) **Demonstrate Integrity** - To maintain and broaden public confidence a person representing oneself as a CPA, CPA-Inactive certificateholder or firm owner and professional employees of such persons must perform all professional responsibilities with the highest sense of honesty.
- (4) **Maintain Personal Objectivity** – A person representing oneself as a CPA, CPA-Inactive certificateholder or firm owner and professional employees of such persons must maintain objectivity at all times when rendering professional services.

Specifically, a person representing oneself as a CPA or CPA-Inactive, firm owners, and professional employees of such persons must:

- (a) Avoid rendering professional services where actual or perceived conflicts of interest exist;
- (b) Be independent in fact and appearance when required by professional standards.

Board Policy: 2011-1 Principles Underlying Board Rules (Continued)

... a person representing oneself as a CPA or CPA-Inactive certificateholder, firm owners, and professional employees of such persons must **exercise due professional care to:**

- **Comply** with federal and state laws and the profession's technical and ethical standards;
- **Maintain** competence and strive to improve the quality of services; and
- **Personally discharge** professional responsibility with the highest sense of integrity, objectivity and ethical commitment.

Board Policy 2011-1

Board Rules

Board Rules are developed and implemented to:

- *Clarify or expand statutory directives within the Boards' authority; or*
- *Comply with judicial interpretations of the ACT and/or the Washington state constitution as applicable to the ACT.*

However the Board has directed that staff “Parrot” the language of the ACT except for matters affected by Items #1 and #2 above.

This course will **identify the more important rules** *that meet the criteria of Items #1 & #2 above.*

Washington State Board Rules, Chapter 4-30 WAC are categorized as follows:

- | | |
|-------------------------------------------------------------------|-----------------------------------------------|
| • <i>Definitions</i> | WAC 4-30- 010 |
| • <i>Board Administration</i> | WAC 4-30- 020 through 4-30- 038 |
| • <i>Ethics and Prohibited Practices</i> | WAC 4-30- 040 through 4-30- 058 |
| • <i>Uniform CPA Examination</i> | WAC 4-30- 060 through 4-30- 064 |
| • <i>Individual Experience and Verification</i> | WAC 4-30- 070 through 4-30- 072 |
| • <i>Washington Resident Individual Licensing</i> | WAC 4-30- 080 through 4-30- 082 |
| • <i>Individual Licensing by <u>Interstate</u> Reciprocity</i> | WAC 4-30- 090 through 4-30- 094 |
| • <i>Individual Licensing by <u>International</u> Reciprocity</i> | WAC 4-30- 100 through 4-30- 104 |
| • <i>CPA Firm Organization and Ownership</i> | WAC 4-30- 110 |
| • <i>Firm Licensing Requirements</i> | WAC 4-30- 112 through 4-30- 116 |
| • <i>Conversions, Retirements and Reinstatements</i> | WAC 4-30- 120 through 4-30- 126 |
| • <i>Continuing Competency</i> | WAC 4-30- 130 through 4-30- 138 |
| • <i>Investigations, Discipline and Enforcement</i> | WAC 4-30- 140 through 4-30- 142 |

Discussion of Board Rules and Policies

WAC 4-30-026 How can I (you) contact the Board?

- 711 Capitol Way South, Suite 400, Olympia, WA 98501 (physical address);
- P.O. Box 9131, Olympia, Washington 98507-9131 (mailing address);
- 360/753-2586 (telephone);
- 360/664-9190 (fax);
- 800/833-6388 (TT service);
- 800/833-6385 (Telebraille services);
- customerservice@cpaboard.wa.gov (e-mail address); and
- www.cpaboard.wa.gov (web site address).

WAC 4-30-032 Do I need to notify the board if I change my address?

YES!

REMEMBER

Your physical address is your address of record for communications from the board.

WAC 4-30-034 Must I respond to inquiries from the board?

YES, YES, and YES, in Writing, no less!!!
Failure to do so might cost you time and \$1,500



4-30-036 What enforcement actions must be reported to the board?

- A sanction, order, suspension, revocation, or modification of a license, certificate, permit or practice rights by the SEC, PCAOB, IRS, or another state board of accountancy for any cause other than failure to pay a professional license fee by the due date or failure to meet the continuing professional education requirements of another state board of accountancy; or
- Charges filed by the SEC, IRS, PCAOB, another state board of accountancy, or a federal or state taxing, insurance or securities regulatory body that the licensee, CPA-Inactive certificate holder, or nonlicensee firm owner committed a prohibited act that would be a violation of board ethical or technical standards.

Licensed CPA firms

are not required to report on action taken against owners, principals, partners, or employees.

4-30-036 What enforcement actions must be reported to the board? (Continued)

- If you hold a license or CPA-Inactive certificate issued through the **foreign reciprocity provisions** of the act, you must notify the board of **any investigations undertaken, or sanctions imposed, by a foreign credentialing body against your foreign credential** that an investigation has begun or a sanction was imposed.

4-30-030 What are the requirements for communicating with the board and staff?

(Previously Discussed in Section I)

WAC 4-30-040 through 4-30-058

ETHICS and PROHIBITED PRACTICES

What are the requirements concerning integrity and objectivity?

In all



IF THE LANGUAGE OF

PROFESSIONAL STANDARDS DIFFER FROM BOARD RULES

BOARD RULES PREVAIL

professional matters you must:

- Remain honest and objective;
- Not misrepresent facts;
- Not subordinate their judgment to others; and
- Remain free of conflicts of interest unless such conflicts are specifically permitted by board rule or professional standards listed in WAC [4-30-048](#).

What restrictions govern commissions, referral, and contingent fees?

WAC 4-30-010(11) "**Commissions and referral fees**" are compensation arrangements where:

AND

The **primary contractual relationship for the product or service is not between the client and licensee**, as defined in subsection (28) of this section, CPA-Inactive certificate holder, nonlicensee firm owner of a licensed firm, or a **person affiliated with a licensed firm**;

-
- (a) Such persons are **not primarily responsible to the client for the performance or reliability** of the product or service; or
 - (b) Such persons **add no significant value** to the product or service; or
 - (c) A **third party *instead of the client* pays the persons** for the products or services.

WAC 4-30-010(13) "**Contingent fees**" are fees established for the performance of any service pursuant to an arrangement in which no fee will be charged unless a specified finding or result is attained, or in which the amount of the fee is otherwise dependent upon the finding or result of such service. For the purposes of WAC 4-30-044, the term "**licensed firm**" includes any affiliated entity(s) and the term "**firm owner**" includes the owner(s) of any affiliated entity(s).

An **Affiliated Entity** is:

ANY entity, entities or persons that directly or indirectly through one or more relationships influences or controls, is influenced or controlled by, or is under common influence or control with other entities or persons.

This definition includes, but is not limited to:

*Parents, Subsidiaries, Investors or Investees,
Co-investors, Dual employment or
Management in Joint Ventures or Brother-
Sister entities.*

(1) Licensees and/or their employees **must not for a commission recommend or refer to a client any product or service, or for a commission recommend or refer any product or service to be supplied by a client, or receive a commission, when such persons perform compilation, or other professional services for which a report expressing assurance is prescribed by professional standards for that client.**

This prohibition applies:

(a) **During the period in which such persons are engaged** to perform professional services for which a report expressing assurance is prescribed by professional standards; and

(b) **During the period covered by any information** for which a report expressing assurance is prescribed by professional standards and a report was issued by such persons.

(2) **Licensees and/or their employees must also not:**

(a) Perform for a **contingent fee** any professional services for, or receive such a fee from a client for whom such persons perform *compilation, or other professional services for which a report expressing assurance is prescribed by professional standards*; or

(b) **Prepare** an original or amended tax return or claim for a tax refund for a contingent fee for **any** client.

(3) **The prohibition against contingent fees applies:**

(a) During the period in which such persons are **engaged** to perform professional services for which a report expressing assurance is prescribed by professional standards; and

(b) During the **period covered by any information** for which a report expressing assurance is prescribed by professional standards and a report was issued by such persons.

(4) **Fees are not considered contingent** if fixed by courts or other public authorities, or, in tax matters, if determined based on the results of judicial proceedings or the findings of governmental agencies. Fees may vary depending, for example, on the complexity of services rendered.

What restrictions govern commissions, referral, and contingent fees?

(Continued):

(5) Any person subject to board rules who is not prohibited by this section from performing services for, or receiving a commission, referral or contingent fee and who are paid or expect to be paid accordingly **must disclose that fact to any person or entity to whom such persons recommend or refer a product or service to which the commission, referral or contingent fee relates in the manner prescribed below:**

- (a) **Disclose the arrangement in writing and in advance of client acceptance;**
- (b) **Disclose the method of calculating the fee or amount of fee;**
- (c) **Specify the licensee's, CPA-Inactive certificateholder's or nonlicensee firm owner's role as the client's advisor; and**
- (d) **Obtain the client's consent to the fee arrangement in writing.**

NOTE: The Board has not defined “the period of a professional engagement” so the AICPA definition applies.

AICPA ET Section 92, *Definitions*:

Period of the professional engagement. The period of the professional engagement begins *when a member either signs an initial engagement letter or other agreement to perform ... services or begins to perform a... engagement for a client, whichever is earlier.*

The period lasts for the entire duration of the professional relationship (which could cover many periods) **and ends with the formal or informal notification, either by the member or the client, of the termination of the professional relationship or by the issuance of a report or other deliverable), whichever is later.**

Accordingly, the period does not end with the issuance of a report and recommence with the beginning of the following year's attest engagement.

[Revised November 2001.Paragraph renumbered May 2010. Paragraph renumbered September 2011. Paragraph renumbered March 2013.]

What are the requirements concerning competence?

... must not undertake to perform any professional service unless can **reasonably expect to complete the service with professional competence.**

AICPA Guidance is more informative and directive and should be considered:

Interpretations under Rule 201 —General Standard.

A member's agreement to perform professional services **implies** that the member:

- ***has the necessary competence to complete those professional services according to professional standards, and***
- ***applying his or her knowledge and skill with reasonable care and diligence, but***
- ***the member does not assume a responsibility for infallibility of knowledge or judgment.***

Competence to perform professional services involves both the technical qualifications of the member and the member's staff and the ability to supervise and evaluate the quality of the work performed.

Competence relates both to knowledge of the profession's standards, techniques and the technical subject matter involved, and to the capability to exercise sound judgment in applying such knowledge in the performance of professional services.

The member may have the knowledge required to complete the services in accordance with professional standards prior to performance. In some cases, however, additional research or consultation with others may be necessary during the performance of the professional services. This does not ordinarily represent a lack of competence, but rather is a normal part of the performance of professional services.

However, if a member is unable to gain sufficient competence through these means, the member should suggest, in fairness to the client and the public, the engagement of someone competent to perform the needed professional service, either independently or as an associate.

Compliance is required with which rules, regulations and professional standards?

(Previously Discussed)

What are the requirements concerning records and clients confidential information?

(Previously Discussed)

What are the requirements concerning client records, including response to requests by clients and former clients for records?

(1) The following terms are defined below solely for use with this section:

(a) **Client provided records** are accounting or other records belonging to the client that were provided to the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner and employees of such persons by or on behalf of the client.

(b) **Client records prepared by the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner** are accounting or other records (for example, tax returns, general ledgers, subsidiary journals, and supporting schedules such as detailed employee payroll records and depreciation schedules) that the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner and employees of such persons was engaged to prepare for the client.

(c) **Supporting records** are information not reflected in the client's books and records that are otherwise not available to the client with the result that the client's financial information is incomplete. For example, supporting records include adjusting, closing, combining or consolidating journal entries (including computations supporting such entries), that are produced by the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner and employees of such persons during an engagement.

(d) **Licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner working papers** include, but are not limited to, audit programs, analytical review schedules, statistical sampling results, analyses, and schedules prepared by the client at the request of the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner and employees of such persons.

What are the requirements concerning client records, including response to requests by clients and former clients for records? (Continued)

(2) When a client or former client (client) makes a request for client-provided records, client records prepared by the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner, or supporting records that are in the custody or control of the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner that have not previously been provided to the client, the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner should respond to the client's request as follows:

(a) **Client provided records** in the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner custody or control must be returned to the client.

(b) **Client records prepared by the licensee**, CPA-Inactive certificate holder, and/or nonlicensee firm owner must be provided to the client, except that client records prepared by the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner may be withheld if the preparation of such records is not complete.

(c) **Supporting records** relating to a completed and issued work product must be provided to the client.

(d) Persons subject to this subsection developing and maintaining such records, or schedules should make a reasonable effort to provide the required information and data to the client in a format useable by the client to avoid the cost to the client of duplicate reentry of individual transaction or other information into the client's or successor custodian's recordkeeping system.

(3) The licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner is **not required to convert records that are not in electronic format to electronic format.** However, if the client requests records in a specific format and the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner was engaged to prepare the records in that format, the client's request should be honored.

(4) Licensees, CPA-Inactive certificate holders, nonlicensee firm owners, and/or employees of such persons must not refuse to return or provide records indicated in subsection (1)(a), (b), and (c) of this section including electronic documents, pending client payment of outstanding fees.

What are the requirements concerning client records, including response to requests by clients and former clients for records? (Continued)

(5) Once the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner and employees of such persons has complied with the requirements in subsection (2) of this section, he or she is under no ethical obligation to comply with any subsequent requests to again provide such records or copies of such records. However, if subsequent to complying with a request, a client experiences a loss of records due to a natural disaster or an act of war, the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner should comply with an additional request to provide such records.

(6) Licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner working papers are the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner property and need not be provided to the client under provisions of this section; however, such requirements may be imposed by state and federal statutes and regulations, and contractual agreements.

(7) In connection with any request for **client-provided records, client records prepared by the licensee**, CPA-Inactive certificate holder, and/or nonlicensee firm owner and employees of such persons, or supporting records, the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner may:

(a) **Charge the client a reasonable fee for the time and expense incurred to retrieve and copy such records and require that such fee be paid prior to the time such records are provided to the client;**

(b) **Provide the requested records in any format usable by the client;**

(c) **Make and retain copies of any records returned or provided to the client.**

(8) Where a licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner is required to return or provide records to the client, the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner should **comply** with the client's request as soon as practicable but, absent extenuating circumstances, **no later than forty-five days after the request is made.**

The fact that the statutes of the state in which the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner practices grants the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner a lien on certain records in his or her custody or control does not relieve the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner of his or her obligation to comply with this section.

What are the requirements concerning client records, including response to requests by clients and former clients for records? (Continued)

(9) A licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner is under *no obligation to retain records for periods that exceed applicable professional standards, state and federal statutes and regulations, and contractual agreements* relating to the service(s) performed.

Note:

The Board says:

(4) Licensees, CPA-Inactive certificate holders, nonlicensee firm owners, and/or employees of such persons **must not refuse to return or provide records** indicated in subsection (1)(a), (b), and (c) of this section including electronic documents, **pending client payment of outstanding fees**.

The AICPA Says:

(MEMBERS MAY) charge the client a reasonable fee for the time and expense incurred to retrieve and copy such records and require that such fee be paid prior to the time such records are provided to the client,

On its face the Washington State Board Rule “trumps” the AICPA

However, the AICPA Interpretation further states:

Members must comply with the rules and regulations of authoritative regulatory bodies, such as the member's state board(s) of accountancy, when the member performs services for a client and is subject to the rules and regulations of such regulatory body.

For example, a member's state board(s) of accountancy may not permit a member to withhold certain records notwithstanding fees due to the member for the work performed.

Failure to comply with the more restrictive provisions contained in the rules and regulations of the applicable regulatory body concerning the return of certain records would constitute a violation of this interpretation.

So it is a DRAW!

Carefully and Thoroughly Read Rules and Regulations!

What are the requirements concerning client records, including response to requests by clients and former clients for records? (Continued)

(10) Audit and review record retention requirements: For a period of seven years after a licensee concludes an audit or review such persons must retain the following records and documents, including electronic records unless hard copies of such exist:

(a) Records forming the basis of the audit or review;

(b) Records documenting audit or review procedures applied;

(c) Records documenting evidence obtained including financial data, analyses, conclusions, and opinions related to the audit or review engagement; and

(d) Records documenting conclusions reached by the licensee in the audit or review engagement.

How does this “play” with the Footnote to the AICPA Interpretation 501-1 regarding client records?

AICPA Footnote to Interpretation 501-1 states:

The member is under no obligation to retain records for periods that exceed applicable professional standards, state and federal statutes and regulations, and contractual agreements relating to the service performed.

QUERY

Is the following statement TRUE or FALSE?

The Board Rule on Record Retention is **MORE RESTRICTIVE** than the AICPA Rule?

TRUE

Withholding of client records for unpaid fees for any professional services is a violation of Board Rule

What acts are considered discreditable?

Licensees, CPA-Inactive certificate holders, nonlicensee firm owners, and employees of such persons **must not**:

(1) Commit, or allow others to commit in their name, any act that reflects adversely on their fitness to represent themselves as a CPA, CPA-Inactive certificate holder, CPA firm, or a firm owner;

(2) Seek to obtain clients by the use of coercion, intimidation or harassing conduct; or

(3) Permit others to carry out on their behalf, either with or without compensation, acts which violate the rules of conduct.

Author Commentary:

Under this rule, the board appears to have defined an act discreditable as “any act that reflects adversely on a person’s fitness to represent the profession” is an act discreditable.

Conversely, the AICPA in its interpretation of Acts Discreditable **includes specific subject matter issues that if, violated, would constitute an Act Discreditable:**

1. Int. 501-1-Withholding client requested records;
2. Int. 501-2-Discriminatory or harassment in employment practices;
3. Int. 501-3-Failure to follow standards and/or procedures or other requirements in governmental audits;
4. Int. 501-4-Negligence in the preparation of financial statements or records;
5. Int. 501-5-Failure to follow requirements of governmental bodies, commissions, or other regulatory agencies.
6. Int. 501-6-Solicitation or disclosure of CPA examination questions and answers;
7. Int. 501-7-Failure to file tax return or pay tax liability;
8. Int. 501-8-Failure to Follow Requirements of Governmental Bodies, Commissions, or Other Regulatory Agencies on Indemnification and Limitation of Liability Provisions in Connection With Audit and Other Attest Services;
9. Int. 501-9—Confidential Information Obtained From Employment or Volunteer Activities;
10. Int. 501-10-False, Misleading, or Deceptive Acts in Promoting or Marketing Professional Services;
11. Int. 501-11—**Use of the CPA Credential—[Effective May 31, 2013.]**

Inappropriate use of the CPA title would be considered a false, misleading, or deceptive act in violation of AICPA Rule 501.

What are the limitations on advertising and other forms of solicitation?

Licensees, CPA-Inactive certificate holders, nonlicensee firm owners, and employees of such persons must not make false, fraudulent, misleading, deceptive or unfair statements or claims

- (1) Contain a misrepresentation of fact;**
- (2) Fail to make full disclosure of relevant facts;**
- (3) Imply your professional services are of an exceptional quality, which is not supported by verifiable facts;**
- (4) Create false expectations of favorable results;**
- (5) Imply educational or professional attainments, specialty designations, or licensing recognition not supported in fact; or**
- (6) Represent that professional services will be performed for a stated fee when this is not the case, or do not disclose variables that may reasonably be expected to affect the fees that will be charged.**

regarding their services. Examples of such statements or claims include, but are not limited to, statements or claims which:


What are the limitations regarding individual and firm names?

A firm name that does not consist of the name(s) of one or more present or former owners must be approved in advance by the board as not being deceptive or misleading.

Misleading or deceptive firm names are prohibited.

The following are examples of misleading firm names. *The board does not intend this listing to be all inclusive.* The firm name:

- (1) Implies it is a legal entity when it is not such an entity (as by the use of the designations "P.C.," "P.S.," "Inc. P.S.," or "L.L.C.");***
- (2) Implies the existence of a partnership when one does not exist;***
- (3) Includes the name of a person who is neither a present nor a past owner of the firm; or***
- (4) Implies educational or professional attainments, specialty designations, or licensing recognition not supported in fact.***



A licensee may not operate under an alias, a firm name, title, or "DBA" that differs from the firm name that is registered with the board.

A CPA or a CPA-Inactive certificateholder may not use the title in association with a name that is not registered with the board

Does the board authorize the use of any other titles or designations?

Yes.

RCW [18.04.350](#)(13), Practices not prohibited, authorizes the board to allow the use of other titles (designations) if the individual using the title by a nationally recognized entity sanctioning or designation is authorized at the time of use the use of board authorized titles or designations.

Accordingly, the board authorizes the use of the following titles and designations:


- (1) Designations or titles authorized by the **American Institute of Certified Public Accountants (AICPA)**;
- (2) Designations or titles authorized by the **Accreditation Council for Accountancy and Taxation** located in Alexandria, Virginia, or its successor:
 - "Accredited Business Accountant" or "ABA";
 - "Accredited Tax Preparer" or "ATP"; and
 - "Accredited Tax Advisor" or "ATA."
- (3) Designations or titles authorized by the **Certified Financial Planner Board of Standards** in Denver, Colorado, or its successor:
 - "Certified financial planner" or "CFP."

These authorized designations relate to title use only, are not limited to individuals who have held or are holding a license or certificate under the act, and do not authorize these other designated individuals to use the title "certified public accountant" or "CPA," or "CPA-inactive."

The board further authorizes the use of the designation "CPA retired" in this state by those individuals who, **upon notice to the board** to retire a license, **meet the following criteria**:

- **Has reached sixty years of age and holds an active license in good standing; or**
- **At any age, has held an active license in good standing, not suspended or revoked, to practice public accounting in any state for a combined period of not less than twenty years.**

CONTINUING COMPETENCY



THIS SECTION OF BOARD RULES COVERS REQUIREMENTS FOR PEER REVIEW AND CPE

Peer Review for Firms:

- **All licensed firms** offering and/or performing attest services, compilation services, or other professional services for which a report expressing assurance is prescribed by professional standards **must undergo a peer review** administered by a board approved program **every three years** for firm licensure and renewal in Washington State;
- Board approved programs include programs administered by:
 - PCAOB
 - AICPA
 - WSCPA
 - Others recognized and approved by the board
- **Any firm that is dropped or terminated** by a peer review program for any reason shall has **twenty-one days to provide written notice to the board** of such termination or drop **and to request authorization from the board to enroll in another board-approved peer review program**;
- **Peer Review compliance including submission of specific information and/or enumerated documents must be submitted to the board by April 30 of the firm's calendar year of renewal**;
- **Peer review documents including the work product and related working papers subject to the review must be retained for the sooner of:**
 - a. Five (5) years from the date of acceptance by the administering entity of the firms current peer review; or
 - b. Acceptance by the administering entity of the firm's subsequent peer review

Extensions. The board may grant an extension of time for submission of the peer review report to the board. Extensions will be determined by the board on a case-by-case basis.

Verification. The board may verify the certifications of peer review reports that firms provide.

What are the quality assurance review (QAR) requirements for licensed CPA firms? (Continued)

Exemption from peer review. The board may grant an extension of time for submission of the peer review report to the board. Extensions will be determined by the board on a case-by-case basis.

- a) **Out-of-state firms that do not have a physical location in this state**, but perform attest or compilation services in this state, and are otherwise qualified for practice privileges under RCW [18.04.195](#) (1)(b) are not required to participate in the board's program if the out-of-state firm participates in a board-approved peer review program or similar program approved or sponsored by another state's board of accountancy.
- b) **Firms that do not perform attest services** as defined by WAC [4-30-010](#)(5), **compilation services**, as defined by WAC [4-30-010](#)(12), **or other professional services for which a report expressing assurance is prescribed by professional standards** in Washington state are not required to participate in a peer review program, and shall request exemption on each firm license renewal application.
- c) **Firms that prepare financial statements which do not require reports** under Statements on Standards for Accounting and Review Services (SSARS) 8 as codified in SSARS 19 (management use only compilation reports) and that perform no other attest or compilation services, are not required to participate in a peer review program; however, such engagements conducted by a firm that is otherwise required to participate in a peer review program shall be included in the selection of engagements subject to peer review.

Peer Review Oversight:

- 1) Annually appoint a compliance assurance oversight committee, and such other committees as the board, in its discretion deems necessary, to provide oversight of the administration of approved peer review programs in order to provide reasonable assurance that peer reviews are being conducted and reported on in accordance with the minimum standards for performing and reporting on peer reviews;
- 2)
- 3) The **compliance assurance oversight committee** shall conduct oversight of approved peer review programs at least semiannually to provide reasonable assurance that such programs are in compliance with the minimum standards for performing and reporting on peer reviews.

What are the quality assurance review (QAR) requirements for licensed CPA firms? (Continued)

Remedies.

The board's quality assurance review program is intended to monitor the quality of a firm's attest and compilation practices and compliance with professional standards (RCW [18.04.065\(9\)](#)).

If the board determines that a firm's attest or compilation engagement performance and/or reporting practices are not in accordance with applicable professional standards and, therefore, the board determines that **one or more of the engagements are, or could be, substandard or seriously questionable, the board will take appropriate action to protect the public interest including, but not limited to:**

(a) Require the firm to develop quality control procedures to provide reasonable assurance that similar occurrences will not occur in the future;

(b) Require any individual licensee who had responsibility for, or who substantially participated in the substandard or seriously questionable compilation or attest engagement(s), to successfully complete specific courses or types of continuing education as specified by the board;

(c) Require that the reviewed firm responsible for one or more substandard or seriously questionable compilation or attest engagement(s) submit all or specified categories of its compilation or attest working papers and reports to a preissuance evaluation performed by a board-approved licensee in a manner and for a duration prescribed by the board. Prior to the firm issuing the reports on the engagements reviewed, the board-approved licensee shall submit to the board for board acceptance a report of the findings, including the nature and frequency of recommended actions to the firm. The cost of the board-approved preissuance evaluation will be at the firm's expense;

What are the quality assurance review (QAR) requirements for licensed CPA firms? (Continued)

(d) Require the reviewed firm to engage a board-approved licensee to conduct a board-prescribed on-site field review of the firm's work product and practices or perform other investigative procedures to assess the degree or pervasiveness of substandard or seriously questionable work product. The board-approved licensee engaged by the firm shall submit a report of the findings to the board within thirty days of the completion of the services. The cost of the board-prescribed on-site review or other board-prescribed procedures will be at the firm's expense; **or**

(e) Initiate an investigation pursuant to RCW [18.04.295](#), [18.04.305](#), and/or [18.04.320](#); and

The specific rating of a peer review report, individually, is not a sufficient basis to warrant disciplinary action.

The board may solicit and review licensee reports and/or other information covered by the reports from clients, public agencies, banks, and other users of such information.

Continuing Professional Education (CPE)

Board Policy 2000-1 - Continuing Professional Education and Licensing Requirements

This policy provides clarification and direction on the Board's continuing professional education (CPE) rules.

I. Guidance Regarding the Appropriate Classification of a CPE Course

Continuing professional education (CPE) is intended to impart to licensees that knowledge necessary to stay current with the knowledge base required to meet contemporary public expectations and comply with professional and regulatory requirements when rendering public accounting services or performing in the employ of an employer.

CPE credits are generally allowable for courses with content related to the primary focus of the licensee's public practice or specific job requirements if in the employ of an employer including but not limited to accounting for transaction, preparation of financial statements, budgeting, data analysis, internal or external auditing, preparation of reports to taxing authorities, controllership functions, financial analysis, performance auditing, specific types of consulting, or forensic investigations.

Generally the Board does not pre-approve programs as meeting the Board's CPE requirements. **However, upon receipt of a CPE course description and outline, the Executive Director may provide informal, oral guidance regarding the appropriate classification of a course.**

II. Acceptable Evidence Supporting Eligibility for CPE Credit

The Board will accept original CPE documents or copies of documents submitted by mail fax, e-mail or other electronic means. The Board, in its discretion, may require the submission of the original of any of these documents.

If documents and/or forms are submitted to the Board or Board staff by mail, fax, e-mail or other electronic means, the sender is responsible for ensuring that the Board or Board staff receives the transmittal.

The Board may request additional documentation such as program outlines, or statements from the participant or sponsor to determine the validity of the CPE claimed.

Board Policy 2000-1 - Continuing Professional Education and Licensing Requirements (Continued)

III. CPE Credit for Self Study Learning Activities

CPE credit for self-study learning activities offered by sponsors other than the American Institute of Certified Public Accountants (AICPA) or recognized by the National Association of State Boards of Accountancy (NASBA) National Registry of CPA Sponsors or Quality Assurance Service (QAS) Self Study sponsors must be based on one of the following methods:

- Pilot test of the representative completion time
- Computation using the prescribed word count formula

Method 2 – Basis for prescribed word count formula. The prescribed word count formula begins with a word count of the number of words contained in the text of the required reading of the self-study program and should exclude any material not critical to the achievement of the stated learning objectives for the program. Examples of information material that are not critical and therefore excluded from the word count are: course introduction; instructions to the learner; author/course developer biographies; table of contents; glossary; and appendices containing supplementary reference materials.

Again, only course content text that is critical to the achievement of stated learning objectives should be included in the word count formula. If an author/course developer determines, for example, that including the entire accounting rule or tax regulation is beneficial to the learner, the accounting rule or tax regulation should be included as an appendix to the course as supplementary reference material and excluded from the word count formula. Only pertinent paragraphs or sections of the accounting rule or tax regulation required for the achievement of stated learning objectives should be included in the actual text of the course and therefore included in the word count formula. Review questions, exercises and final examination questions are considered separately in the calculation and should not be included in the word count.

Calculation of CPE credit using the prescribed word count formula. The word count for the text of the required reading of the program is divided by 180, the average reading speed of adults. The total number of review questions, exercises and final examination questions is multiplied by 1.85, which is the estimated average completion time per question. These two numbers plus actual audio/video duration time, if any, are then added together and the result divided by 50 to calculate the CPE credit for the self-study program. When the total minutes of a self-study program are not equally divisible by 50, the CPE credits granted must be rounded down to the nearest one-half credit.

$$\frac{[(\# \text{ of words}/180) + \text{actual audio/video duration time} + (\# \text{ of questions} * 1.85)]}{50} = \text{CPE credit}$$

What are the program standards for CPE?

(1) **Qualifying program:** A program qualifies as acceptable CPE for purposes of RCW [18.04.215](#)(5) if it is a **formal program of learning** which contributes to the CPA's professional knowledge and competence.

A formal program means:

- *The program is **at least fifty minutes in length**;*
- ***Attendance is recorded**;*
- ***Participants sign in** to confirm attendance and, if the program is greater than four credit hours, **participants sign out** during the last hour of the program; and*
- *Attendees are provided a **certificate of completion**.*

(2) **Undergraduate and graduate courses:** A graduate or undergraduate course qualifies for CPE credit if it meets the standards in subsections (1) and (5) of this section.

For both undergraduate and graduate courses:

- **one quarter credit equals 10 CPE credit hours and**
- **one semester credit equals 15 CPE credit hours.**

What are the program standards for CPE? (Continued):

- (3) **Committee meetings:** Generally, CPE credit is not allowed for attending committee meetings. A meeting qualifies for CPE credit only if it meets the standards in subsections (1) and (5) of this section.
- (4) **CPE credit hours for volunteer service on the board and its committees and volunteer service on board approved peer review committees:**... up to sixty-four hours of technical CPE credit each calendar year for actual time spent on board, board committee, or board approved peer review committee activities including actual time you spend preparing for committee meetings.
- (5) **Subject areas:** Programs dealing with the following general subject areas are acceptable so long as they meet the standards in subsection (1) of this section:

Technical subjects include:

- (I) Auditing standards or procedures;
 - (ii) Compilation and review of financial statements;
 - (iii) Financial statement preparation and disclosures;
 - (iv) Attestation standards and procedures;
 - (v) Projection and forecast standards or procedures;
 - (vi) Accounting and auditing;
 - (vii) Management advisory services;
 - (viii) Personal financial planning;
 - (ix) Taxation;
 - (x) Management information services;
 - (xi) Budgeting and cost analysis;
 - (xii) Asset management;
 - (xiii) Professional ethics (other than ... the requirements of WAC [4-30-134\(3\)](#));
 - (xiv) Specialized areas of industry;
 - (xv) Human resource management;
 - (xvi) Economics;
 - (xvii) Business law;
 - (xviii) Mathematics, statistics, and quantitative applications in business;
 - (xix) Business management and organization;
 - (xx) General computer skills, computer software training, information technology planning and management; and
 - (xxi) Negotiation or dispute resolution courses;

Nontechnical subjects include:

- (i) Communication skills;
- (ii) Interpersonal management skills;
- (iii) Leadership and personal development skills
- (iv) Client and public relations;
- (v) Practice development;
- (vi) Motivational and behavioral courses; and
- (vii) Speed reading and memory building.

**OTHER SUBJECTS MAY BE ACCEPTABLE
PROVIDED YOU CAN DEMONSTRATE THEY
CONTRIBUTE TO YOUR PROFESSIONAL
COMPETENCE.**

***YOU ARE SOLELY RESPONSIBLE FOR THAT
DETERMINATION***

What are the program standards for CPE? (Continued)

Group programs: You may claim CPE credit for group programs such as the following so long as the program meets the standards in subsections (1) and (5) of this section:

- (a) Professional education and development programs of national, state, and local accounting organizations;
- (b) Technical sessions at meetings of national, state, and local accounting organizations and their chapters;
- (c) Formal in-firm education programs;
- (d) Programs of other organizations (accounting, industrial, professional, etc.);
- (e) Dinner, luncheon, and breakfast meetings which are structured as formal educational programs;
- (f) Firm meetings for staff and/or management groups structured as formal education programs. Portions of such meetings devoted to communication and application of general professional policy or procedure may qualify, but portions devoted to firm administrative, financial and operating matters generally will not qualify.

CPE credit:

- CPE credit is allowable only for those programs taken in time periods after the first CPA license is issued.
- Credit is not allowed for programs taken to prepare an applicant for the ethics examination as a requirement for initial licensure.
- CPE credit is given in half-hour increments only after the first full CPE credit hour has been earned.
- A minimum of fifty minutes constitutes one CPE credit hour and, after the first fifty-minute segment has been earned, twenty-five minutes constitutes one-half CPE credit hour.

Attendees obtain CPE credit only for time spent in instruction; no credit is allowed for preparation time unless the attendee is the discussion leader

Instructor, discussion leader, or speaker: If you serve as an instructor, discussion leader or speaker at a program which meets the standards in subsections (1) and (5) of this section, **the first time you present the program you may claim CPE credit for both preparation and presentation time.** One hour of credit is allowed for each fifty minutes of instruction. **Additionally, you may claim credit for actual preparation time up to two times the presentation hours.**

No credit is allowed for subsequent presentations.

A maximum of seventy-two CPE credit hours are allowed for preparation and presentation during each CPE reporting period.

For example:

- **Twenty-five minutes of continuous instruction** counts as **zero CPE credit** hour if that instruction is the first CPE course taken;
- **Fifty minutes of continuous instruction** counts as **one CPE credit** hour; and
- **Seventy-five minutes of continuous instruction** counts as **one and one-half CPE credit** hours.

What are the program standards for CPE? (Continued)

Self-study programs: Credit for self-study programs is allowed for reporting purposes **on the date you completed the program** *as established by the evidence of completion provided by the program sponsor.*

(a) **Interactive self-study programs:** Interactive means electronic or other delivery formats for delivery of CPE in which feedback is provided during the study of the material in a manner to validate the individual's understanding of the material. The amount of credit allowed for interactive self-study is that which is recommended by the program sponsor on the basis of the average completion time under appropriate "field tests." In order to claim CPE credit for interactive self-study programs, you must obtain evidence of satisfactory completion of the course from the program sponsor.

Self-study CPE courses registered with the National Association of State Boards of Accountancy (NASBA) as a Quality Assurance Service (QAS) sponsor may be accepted as interactive.

b) **Noninteractive self-study programs:**

The amount of credit allowed for noninteractive self-study is one-half the average completion time as determined by the program sponsor on the basis of appropriate "field tests."

To claim CPE credit for noninteractive self-study programs, you must obtain evidence of satisfactory completion of the course from the program sponsor.

Refer to Board Policy 2000-1, as amended April 23, 2013 for Word-Count guidance

What are the program standards for CPE? (Continued)

Published articles, books: You may claim CPE credit for published articles and books, provided they contribute to your professional competence. Credit for preparation of such publications may be claimed on a self-declaration basis for up to thirty hours in a CPE reporting period. In exceptional circumstances, you may request additional credit by submitting the article(s) or book(s) to the board with an explanation of the circumstances that justify a greater credit. The amount of credit awarded for a given publication will be determined by the board.

Carry-forward: CPE credit hours in excess of the required 120 hours cannot be carried forward to the next period.

Carry-back: CPE credit hours you complete during one CPE reporting period pursuant to an approved extension of time or as a result of Board Ordered corrective action can be carried back to the previous reporting period.

Credential examination: CPE credit may not be claimed for CPA examination review courses. You may not claim CPE credit for preparing for or taking a credential examination unless you complete a formal review course and receive a certificate of completion meeting the requirements of WAC [4-30-138](#). CPE credit may not be claimed for CPA examination review courses.

What are the CPE requirements for individuals?

The following CPE credit hours are required for individuals during the three calendar year period prior to renewal.

WAC 4-30-134

CPE Credit Hours qualify ONLY IF

the CPE content contributes to the CPA's professional knowledge and competence;

AND

The CPE course is **completed after initial licensing.**

a) **Licensees** must complete a **total of 120 CPE hours**, *including:*

- **4 CPE credit hours** in a Board approved **Washington State Specific Ethics and Regulations course**; *and*
- **No more than 24 CPE credit hours** in **nontechnical subject areas**.
- CPA-Inactive certificate holders or resident nonlicensee firm owners must only complete 4 CPE credit hours in aboard approved **Washington State Specific Ethics and Regulations course**;

Individuals exercising practice privileges under the state's mobility provisions are EXEMPT from this state's CPE requirements

What are the CPE requirements for individuals? (Continued)

The **CPE reporting period** is a calendar year time period beginning in the calendar year a credential is first issued by this Board and ending on December 31 of the subsequent third calendar year.

IF your license was issued any time during calendar year 1 (2012) the CPE reporting period ends on December 31 of calendar year (2014).

Exceptions for CPA-Inactive Converters to Licensees

CPE requirements for the ***initial CPE renewal*** after conversion of a CPA-Inactive certificate to Washington State license:

- i. If your license was issued during **the first calendar year of your CPE reporting period**, you must have completed **80 CPE credit hours which is limited to 16 CPE credit hours in nontechnical subject areas and must include 4 CPE credit hours in *Washington State Specific Ethics and Regulation*** prior to December 31st of the subsequent 3rd calendar year.
- ii. If your license was issued during the **second calendar year of your CPE reporting period**, you must have completed 40 CPE credit hours which is limited to 8 CPE credit hours in nontechnical subject areas and must include 4 CPE credit hours in ***Washington State Specific Ethics and Regulation*** prior to December 31st of the subsequent 2nd calendar year.
- iii. If your license was issued during the **third calendar year of your CPE reporting period**, you must have completed the 4 CPE credit hours ***Washington State Specific Ethics and Regulation*** prior to December 31st of that year.

What are the CPE requirements for individuals? (Continued)

Variations in CPE Requirements for Others

For **Certain** License applications you must have completed:

- Four CPE hours in ***Washington State Specific Ethics and Regulation*** within the **six-month period** immediately preceding the date your application; and
- The remaining **116 hours of qualifying CPE including not more than 24CPE credit hours** in **nontechnical subject areas**. within the **thirty-six month period** immediately preceding the date your application is submitted to the board;

Your CPE documentation must be submitted to the board along with your application and payment of fees.

- i. you are applying to reactivate a **license** out of retirement;
- ii. you are a **CPA Inactive certificate holder** applying to return to your **previously held status as a licensee**; or
- iii. you are applying for **reinstatement of a lapsed, suspended, or revoked license**.

CPA-Inactive certificate holders must have completed the four CPE hours in ***Washington State Specific Ethics and Regulation*** within the **six-month period** immediately preceding the date your application and the CPE documentation is submitted to the board:

- i. you are applying to reactivate a **CPA Inactive certificate** out of retirement; or
- ii. you are applying to reinstate a **lapsed, suspended, or revoked CPA-Inactive certificate, or registration as a resident nonlicensee firm owner,**

What are the CPE requirements for individuals? (Continued)

CPE extension request

You **must complete** the required CPE **by the end of the calendar year preceding your renewal year unless you can demonstrate your failure to meet the CPE requirements was due to reasonable cause.**

The board may provide limited extensions to the CPE requirements for reasons of individual hardship including, but not limited to, financial hardship, critical illness, or active military deployment.

You must request such an extension **in writing by the end of the CPE reporting period.**

The request **must** include:

- **justification** for the request and
- identify **the specific CPE you plan** to obtain to correct your CPE deficiency.

[WAC 4-30-134](#)

A form useful for this purpose is available from the board's web site or will be provided to you upon request.

What are the CPE requirements for individuals? (Continued)

Self-Reported Deficiencies

If you **fail to file a timely request for extension, but you self-report** a CPE deficiency between, **January 1 through June 30** of the renewal year you will be permitted to continue to use the restricted title during the renewal period provided you:

-
- (a) **Submit to the board, in writing, the specific CPE plan to obtain to correct the CPE deficiency on or before June 30** of the renewal period;
 - (b) **Timely complete the Planned CPE;**
 - (c) Timely submit certificates or other completion documents CPE taken; and
 - (d) Pay the fee for reinstatement of a lapsed credential.

The CPE taken will be carried back and will not qualify as CPE for the next renewal

CPE for the next renewal is automatically subject to CPE audit to ensure that inadvertent double counting does not occur.

What are the CPE requirements for individuals? (Continued)

How do I report my CPE to the board?

When you complete your application for renewal, **you are required to certify** that you complied with the board's CPE requirements as defined in WAC [4-30-134](#) and supporting documentation requirements as defined in WAC [4-30-138](#).

The board audits, on a test basis, compliance with CPE and supporting documentation requirements as certified during the renewal application process. As part of this audit the board may require additional information to demonstrate your compliance with the board's rules.

What documentation must I retain to support my eligibility for CPE credits?



You are responsible for obtaining and retaining **evidence** to support your entitlement to the CPE credit claimed on your renewal application.

You must **retain** the supporting documentation for CPE credit claimed for **three years after the end of the CPE reporting period** in which the credit was claimed.

What are the CPE requirements for individuals? (Continued)

Documentation must include all of the following information about each program for which you claim CPE credit

- (a) Program sponsor;
- (b) Title of program or description of content;
- (c) Date(s) attended;
- (d) Number of CPE credit hour(s);
- (e) Attendee name; and
- (f) Acceptable evidence of completion.

Acceptable evidence includes:

- (a) a **certificate, or other acceptable verification** for group programs;
- (b) a **certificate** for self-study programs;
- (c) a **transcript or official record, including grade received**, for a university or college course;
- (d) evidence obtained from the program sponsor of your having been the instructor or discussion leader at the program For instruction credit,; or
- (e) **evidence of publication** for articles or books.

Investigations, Enforcement, and Sanctions

What are the authority, structure, and processes for investigations and sanctions?

Investigations are responsive to formal complaints or indications of a potential violation of chapter [18.04](#) RCW and in all proceedings under RCW [18.04.295](#) or chapter [34.05](#) RCW.

Investigations must be directed and conducted by individuals sufficiently qualified and knowledgeable of the subject matter of an investigation.

NOTE: The rule also requires that staff assigned to gather evidence or contract investigators *must have no current or former close relationship to (or with) the complainant or respondent.*

Board Rule WAC 4-30-140 was adopted by the board to protect you from “Unreasonable Search and Seizure” guaranteed by 4th Amendment to the U.S. Constitution.

General responsibilities for “directing” an investigation are:

- **Determine** whether the complaint or information is within **the authority of the board**;
- **Determine the most likely sanction** the board might impose if the alleged violation is proven;
- **Determine the scope and type of evidence** needed to reach a conclusion whether a violation occurred;
- **Monitor communications** to the person(s) affected by the investigative process;
- **Monitor the progress** of the evidentiary gathering process to ensure that the scope of inquiry and request for records is limited to that necessary to reach a conclusion whether the violation occurred;
- Upon completion of the investigation, **evaluate the sufficiency of the evidence** to support a conclusion as to whether a violation occurred;
- **Develop a recommendation for dismissal or sanction** *for consideration by a consulting board member based upon the accumulated evidence and the board's "fair and equitable" standard for sanctioning.*

What are the authority, structure, and processes for investigations and sanctions? (Continued)

Board Policy 2004-1, *Sanction and Penalty Guidelines*,
informs staff and provides more detail about the
investigation and enforcement processes.

**The Board's Goal is to
Administer the enforcement process in a "Fair
and Equitable" manner
and, when appropriate,
Seek Settlement in lieu of Board hearing.**

BOARD POLICY 2004-1, as amended April 23, 2013

Background Information:

The Executive Director directs the Board's complaint processes, investigative activities, and case resolution negotiations.

Upon receiving a complaint or otherwise becoming aware of a situation or condition that might constitute a violation of the Public Accountancy Act (Act) or Board rules, the Executive Director or *designee* will make a preliminary assessment.

If the Executive Director or *designee* determines:

- The situation or condition is not within the Board's authority, the Executive Director may dismiss the matter, but a record of the event will be documented and maintained in the Board office.

A summary of dismissals will be reported regularly to the Board.

- The situation or condition requires further evaluation, the Executive Director or *designee* may assign the case to an investigator.

The Executive Director or designee will document the details of the additional evidence gathered and the resulting conclusion.

If the Executive Director or *designee* concludes:

- **Sufficient evidence does not exist** to merit Board action, **the Executive Director may dismiss** the case **after obtaining concurrence from a Consulting Board Member**.
- **Sufficient evidence exists** to merit Board action and **it is the first time an individual or firm is notified of a violation** of the Public Accountancy Act or Board rule, **the Executive Director may impose administrative sanctions approved by the Board for a first-time offense**.
- **Sufficient evidence exists** to merit Board **consideration** **but the situation or condition, if proven, is not eligible for administrative sanctions**, the Executive Director or *designee* will **discuss a resolution strategy and settlement parameters with a Consulting Board Member**.
- **The Executive Director or designee will initiate a discussion for resolution with the respondent consistent** with that agreed upon strategy and those settlement parameters once the Executive Director or *designee* and Consulting Board Member agree on those matters.

Overview of BOARD POLICY 2004-1, as amended April 23, 2013 (Continued)

The Executive Director or designee may request guidance from a Consulting Board Member and/or the assistance of the prosecuting Assistant Attorney General at any time during the investigative and/or negotiation processes.

- If the **respondent agrees** to the terms of a settlement proposal, the Executive Director will forward the proposal to the respondent for written acceptance. If accepted by the respondent, the **proposal will be forwarded to the Board for approval.**
- Upon receiving and considering the formal settlement proposal, **the respondent may offer a counterproposal.**
- The Executive Director or designee and Consulting Board Member may **agree to the counterproposal, offer a counter to the counterproposal, or reject the counterproposal.**

The Executive Director will execute a Statement of Charges and refer the case to the prosecuting Assistant Attorney General with the request that an administrative hearing be scheduled and the case prosecuted *if the Executive Director and Consulting Board Member reject the counterproposal or are unable to negotiate what they consider to be an acceptable alternative proposal with the respondent.*

Negotiations may continue while the hearing is being scheduled.

Overview of BOARD POLICY 2004-1, as amended April 23, 2013 (Continued)

If the case goes to hearing before the Board,
the prosecuting Assistant Attorney General, *with the concurrence of the Executive Director and Consulting Board Member*, will present the team's recommended sanction to the Board

**The Investigative/negotiation team must
individually and jointly act objectively and cooperatively to:**

- ***Draw conclusions as to the allegations based solely on the evidence,***
- ***Develop and present to the respondent a suggested settlement proposal that they believe the Board will accept because the proposal is fair and equitable and provides public protection, and***
- ***If the case goes to a hearing before the Board, recommend an appropriate sanction or sanctions to the Board.***

***No settlement proposal is forwarded to the Board
unless all parties to the negotiations concur that the proposal is an acceptable resolution.***

If the negotiation participants do concur with the settlement proposal, the proposed settlement is signed by the respondent (*and signed by the prosecuting Assistant Attorney General if the settlement was negotiated by the prosecuting Assistant Attorney General*) and **forwarded to the Board members** (along with the Executive Director's, Consulting Board Member's and, when appropriate, prosecuting Assistant Attorney General's **recommendation to accept the proposal for consideration.**

The Board is not bound by this recommendation.

All proposed settlements must be approved by a majority vote of the Board.

*A vote of **five "no's"** means the proposed settlement has been **rejected.***

If rejected by the Board,
the case will return to the Executive Director, Consulting Board Member and prosecuting Assistant Attorney General who will determine whether to :

- attempt further negotiations; or
- schedule an administrative hearing.

Overview of BOARD POLICY 2004-1, as amended April 23, 2013 (Continued)

The key benefits to this process are:

- The **respondent participates** in the development of the corrective action plan and sanction which enhances compliance and more timely public protection
- Cases resolved through the negotiated settlement process **reduce costs** for the benefit of both the general public and the respondent

...Administrative Hearings:

- **Delay the corrective action** and thereby delay public protection
- **Are not the most effective mechanism** to generate a positive resolution to Board cases
- **Are costly** in terms of staff and other resources
- **Require significant use of the Board's limited attorney general resources**

To support the negotiation and settlement process, the Board provides the following guidance to the Executive Director or designee and Consulting Board Member in crafting a suggested settlement proposal for presentation to the respondent and for negotiating a settlement. This guidance is solely for the use of the Consulting Board Member and the Executive Director or designee.

Legal and Investigative Costs

RCW 18.04 authorizes the Board to recover legal and investigative costs. The Board considers the following to be reasonable legal and investigative costs.

- Attorney General charges (both for the Board's legal counsel and the prosecuting Assistant Attorney General) associated with the case including travel expenses and per diem based on the state travel regulations as established by the Office of Financial Management
- Salaries and benefits (based on actual salary and benefit rates) for state staff preparing and reviewing the Board's order and associated communications with the respondent
- Salaries and benefits (based on actual salary and benefit rates) for state staff called as a witness by either party to the administrative hearing
- Witness expenses including travel and per diem expenses based on the state travel regulations as established by the Office of Financial Management
- Court reporter charges
- Administrative hearing room costs and set-up charges

Overview of BOARD POLICY 2004-1, as amended April 23, 2013 (Continued)

Publication of Board Orders

1. A general public notice will be posted on the Board's public web site that information on Board orders and other sanctioning agreements is available under the Public Disclosure Act by contacting the Board's office.
2. The Board will post notice of Board orders for revocation, suspension, stayed suspension, and practice restriction on the Board's web site for approximately three years following the year of the Board order. In addition, for license and certificate suspension and revocation:
 - Notice will be published in the Daily Journal of Commerce.
 - Notice will be provided to the AICPA and WSCPA.
 - Representative(s)/Senator(s) for the respondent's location(s) will be notified.
 - Other jurisdictions that have licensed the individual will be notified.
 - The complainant(s) will be notified.
 - Notice will be sent to the newspaper(s) in the respondent's location.

Board actions resulting in revocation, suspension, or practice restriction are noted in the Board's public licensee search database. Accordingly, these Board actions also become available to other state board administrative management personnel through a national Automated Licensee Database (ALD) maintained by the National Association of State Boards of Accountancy (NASBA) and to the general public through www.CPAVerify.org.

3. In cases of other matters of **non-compliance not resulting in administrative sanction, revocation, suspension, stayed suspension, or a Board ordered practice restriction**, the Executive Director, with a majority vote of the Board, may direct that a notation be made **referencing each** of the Board's sanctioning actions on the **Board's public licensee search database for up to three years following the year the sanction was imposed**.
4. **In cases of administrative sanction**, the Board **will not publish the individual's or firm's name**; however, the Board will:
 - Post statistics related to these sanctions on the Board's web site.
 - Comply with the Public Records Act.

Overview of BOARD POLICY 2004-1, as amended April 23, 2013 (Continued)

The Board provides the following suggested considerations for the Executive Director or designee and Consulting Board Member when developing a suggested settlement; however, the Board does not intend that other factors, as deemed appropriate by the Executive Director or designee and Consulting Board Member, to be excluded:

- A. What are the enforcement goals of the particular case?
- B. What are the permissible sanctions that the Board could impose?
- C. What are the aggravating or mitigating factors relevant to the allegations?
- D. What is the individual's past disciplinary or criminal history (if any)?
- E. Are there identifiable trends, if any, in the individual's behavior?
- F. What is the likelihood of the individual repeating the behavior?
- G. What is the potential for future public harm?
- H. What is the individual's potential for rehabilitation?
- I. What is the extent of damages or injury?
- J. What is the extent of public harm?
- K. What is the extent of harm to the profession and the public's trust in the profession?
- L. How can the public best be served and protected while implementing corrective action?
- M. What steps are necessary to ensure the integrity of financial information?
- N. What were the Board's sanctions with similar misconduct (if any exist) and has there been a trend in the Board's actions and/or changes in state law impacting the history of the Board's sanctions?
- O. Has the individual been sanctioned by other enforcement agencies or through civil findings:
 - Fine
 - Cost recovery
 - Disgorgement
 - Practice or license restriction
 - Publication
 - Jail
- P. What was the magnitude of the sanctions by other enforcement agencies/civil findings?
- Q. What impact did these other sanctions have on:
 - The individual's behavior
 - The individual's taking responsibility for her/his actions
 - The individual's ability to earn a livelihood
 - The public's awareness of the individual's misconduct
- R. Would a suspended license seriously impact the individual's livelihood and, if so, does the misconduct merit such an impact?
- S. Did the individual lose their job/employment/livelihood due to the misconduct?
- T. What is the individual's personal financial position?

Overview of BOARD POLICY 2004-1, as amended April 23, 2013 (Continued)

- U. Did the individual recently go through bankruptcy?
- V. What is the individual's ability to pay cost recovery?
- W. What is the individual's ability to pay a fine?
- X. Has the individual already taken self-imposed corrective action (such as CPE, field review)?
- Y. What is the length of time that has elapsed since the misconduct, the sanction, or the civil action?
- Z. What is the public's exposure to the individual?
- AA. Is the misconduct singular or repeated?
- BB. Is the misconduct a clear violation or does it involve a statute, rule or standard which is subject to different interpretations?
- CC. Was the misconduct intentional or unintentional?
- DD. Did the misconduct involve dealing with unsophisticated or vulnerable parties?
- EE. Did the CPA/individual profit or benefit from the misconduct?
- FF. Did the CPA/individual make an effort to limit the harm or solve problems arising out of the misconduct?
- GG. Did the misconduct take place after warnings from the agency?
- HH. What was the Board's sanctioning authority at the time the misconduct occurred?

The Board suggests the following considerations when considering a counterproposal negotiating a settlement:

- A. All of the items in Section III above.
- B. What is the value to have the individual participate in the development of the corrective action?
- C. How many outstanding Board cases have been referred to the prosecuting Assistant Attorney General and remain to be resolved?
- D. What is the effect of a delay in resolution of this particular case and/or the effect of a delay in prosecution of other cases?
- E. What is the severity of the particular case under negotiation as compared to the number of, and severity of, the cases with the prosecuting Assistant Attorney General?
- F. What are the key objectives and goals of the enforcement action and what sanctions are absolutely necessary to ensure those goals are achieved?
- G. Is there value to the public, the agency, and Attorney General's Office that can be obtained by having the agreement settled without going to an administrative hearing?
- H. Consider the sanctioning guidelines below.

Overview of BOARD POLICY 2004-1, as amended April 23, 2013 (Continued)

The Board acknowledges the following general sanctioning guidelines for the Executive Director or designee's and the Consulting Board Member's consideration as part of their process to develop a suggested settlement. The Board does not intend these guidelines to be a prescription or binding; nor does the Board wish to exclude or limit other sanctions or considerations that the Executive Director or designee and Consulting Board Member consider appropriate.

General Categories of Misconduct	Examples of Acts subject to Sanctions and/or Penalties:
<p><u>ADMINISTRATIVE NON COMPLIANCE</u></p> <p>Use of title or holding out in public practice with a lapsed license/certificate</p> <p>Use of the CPA title by a CPA-Inactive certificateholder</p>	<ul style="list-style-type: none"> • License/certificate lapsed because the individual failed to file a license/certificate renewal. • License/certificate lapsed because the individual failed to notify the Board of a change of address, failed to receive their renewal application, and failed to file a license/certificate renewal. • The individual disregarded the lapsed license and continued to knowingly hold out with a lapsed license. • The individual discovered that their license/certificate lapsed and signed the reinstatement application stating that they did not use the title when the evidence demonstrates that they used the title. • CPA-Inactive who is a corporate CFO uses the CPA title in filing corporate documents with the SEC. • CPA-Inactive uses the CPA title to obtain a job in private industry. • CPA-Inactive who is also an attorney uses the CPA title when offering legal services to the public.
<p>CONSUMER/EMPLOYER HARM</p> <p>Embezzlement, fraud, dishonesty, or negligence</p> <p>Fiduciary malfeasance or breach of fiduciary duties</p> <p>Noncompliance with code of conduct including conflict of interest and confidentiality</p> <p>Failure to comply with a Board order</p> <p>Failure to respond to Board inquiry</p> <p>IRS sanction/denial of practice privilege</p>	<ul style="list-style-type: none"> • Theft from employer. • Felony obstruction of justice. • Theft of trust funds where the CPA was the trustee. • Manipulated a client’s trust for the benefit of the CPA’s child. • Manipulated a mentally impaired client for self-enrichment. • Failed to file personal tax returns and pay personal FIT. • Failed to transmit FICA and FIT withheld from employee’s salary. • Failed to pay employer’s portion of FICA. • Provided services to both the seller and the buyer during a business transaction without consent. • Provided services to both parties during a divorce without consent. • Failed to make restitution to injured parties as required by Board order. • Repeated noncompliance with stipulated Board Orders. • Suspended from practice before the IRS due to substandard tax work.

General Categories of Misconduct	Examples of Acts subject to Sanctions and/or Penalties:
<p>CONSUMER/EMPLOYER HARM</p> <p>SEC sanction/denial of practice privilege</p>	<ul style="list-style-type: none"> • SEC practice restriction and/or sanction due to fraudulent SEC filing. • SEC practice restriction and/or sanction due to substandard accounting practices.
<p>CONSUMER/EMPLOYER HARM</p> <p>Noncompliance with technical standards</p>	<ul style="list-style-type: none"> • CPA is referred to the Board by the SEC due to an audit failure as a result of the CPA performing substandard audit procedures. • CPA is referred to the Board by federal agencies due to failure to comply with <i>Yellow Book</i> standards. • Substandard tax work resulted in penalty to a tax client.
<p>CONSUMER/EMPLOYER HARM</p> <p>Failure to provide client records upon reasonable notice and request</p>	<ul style="list-style-type: none"> • Refused to return client records until the client paid the CPA's fees • Did not return multiple clients' records due to procrastination. • Did not return client records because the client terminated the relationship and obtained a new CPA.
<p><u>ADMINISTRATIVE NON COMPLIANCE</u></p> <p>Acts and omissions in filing an application for reinstatement or renewal of a license, certificate, or registration</p> <p>Failure to comply with a Board approved CPE waiver request</p>	<p>NOTE: <i>Knowingly</i> representing that CPE courses were obtained when evidence discloses that no CPE or only an insignificant portion of the required CPE courses were taken is a class B Felony under Washington State Law.</p> <ul style="list-style-type: none"> • Signed the reinstatement or renewal form that the CPE requirements were met but <i>unintentionally</i> failed to recognize a deficiency in qualifying CPE credits hours, including unintentional "double counting" of specific courses taken within, or carried back to, a prior renewal period .
<p>CONSUMER/EMPLOYER HARM</p> <p>Failed good character determination for initial licensure</p>	<ul style="list-style-type: none"> • The good character review was at the request of the applicant who was found guilty of a felony 3 years ago. • The good character review as a result of the applicant's disclosure that 7 years prior they failed to file an income tax return and pay their tax obligation. • The good character review was the result of the prosecutor alerting the Board to the applicant's being

General Categories of Misconduct	Examples of Acts subject to Sanctions and/or Penalties:
<p>CONSUMER/EMPLOYER HARM</p> <p>Failed good character determination for knowingly filing a false application for renewed recognition as a licensee or CPA-Inactive certificateholder</p> <p>Cheating on CPA Exam</p>	<p>charged with a felony.</p> <ul style="list-style-type: none"> • Knowingly submitted falsified CPE documents for CPE audit or reinstatement purposes. • Signed a renewal form knowingly asserting qualified CPE had been timely completed when the individual knew she/he had not taken the qualifying courses. <ul style="list-style-type: none"> • Cheating observed by the exam proctor.
<p>CONSUMER/EMPLOYER HARM</p> <p>Use of title or holding out in public practice by a nonCPA</p>	<ul style="list-style-type: none"> • Knowingly used the CPA title after passing the exam but without a license. • Used the CPA title to intentionally defraud investors.

What are the bases for the board to impose discipline?

The Public Accountancy Act authorizes the board to:

- revoke, suspend, refuse to issue, renew, or reinstate an individual credential or firm license;
- impose a fine not to exceed thirty thousand dollars;
- recover investigative and legal costs;
- impose full restitution to injured parties;
- impose remedial sanctions;
- impose conditions precedent to renew; or
- prohibit a resident nonlicensee from holding an ownership interest in a firm licensed in this state for the specific acts listed below.

The following are specific examples of prohibited acts that constitute grounds for discipline:

- **Fraud or deceit in any filings with the board.**
- Cheating on the CPA exam.
- **Practicing public accounting prior to obtaining a license.**
- **Offering or rendering** public accounting services in this state by **an out-of-state individual or firm** not qualified for practice privileges under RCW [18.04.195](#) or [18.04.350\(2\)](#);
- **Making misleading, deceptive, or untrue representations;**
- Engaging in acts of fiscal dishonesty;
- **Purposefully, knowingly, or negligently failing to file a report or record required by law to be filed local, state, or federal authorities;**
- **Filing a false report or record with local, state, or federal authorities;**
- Unlawfully selling unregistered securities;
- Unlawfully acting as an unregistered securities salesperson or broker-dealer;
- Discharging a trustee's duties in a negligent manner;
- **Breaching one's fiduciary duties;**
- **Withdrawing or liquidating, as fees earned, funds received from a client as a deposit or retainer when the client contests the amount of fees earned, until such time as the dispute is resolved;**

What are the bases for the board to impose discipline? (Continued)

- The following shall be **prima facie evidence** that a credentialed person or an employee of such persons has engaged in dishonesty, fraud, or negligence.

A finding that the person or persons committed an act of negligence, fraud, or dishonesty or other act reflecting adversely on the person's fitness to be credentialed:

- 1) *An order of a court of competent jurisdiction;*
 - 2) *An order of a federal, state, local or foreign jurisdiction regulatory body, or a PCAOB;*
 - 3) *Cancellation, revocation, suspension, or refusal to renew the right to practice by any other state for any cause other than failure to pay a fee or to meet the requirements of continuing education in the other state;*
 - 4) *Suspension or revocation of the right to practice before any state agency, federal agency, or the PCAOB*
- **Sanctions and orders entered by a nongovernmental professionally related standard-setting body** for violation of ethical or technical standards in the practice of public accounting.
 - **Any state or federal criminal conviction or commission of any act constituting a crime** under the laws of this state, or of another state, or of the United States.
 - **A conflict of interest** such as:
 - (a) **Self-Dealing as a trustee**, including, but not limited to:
 - (i) *Investing trust funds in entities controlled by or related to the trustee;*
 - (ii) *Borrowing from trust funds, with or without disclosure; and*
 - (iii) *Employing persons related to the trustee or entities in which the trust has a beneficial interest to provide services to the trust (unless specifically authorized by the trust creation document).*
 - (b) **Borrowing funds from a client** unless the client is in the business of making loans of the type obtained by the licensee, as defined in WAC [4-30-010](#), CPA-Inactive certificate holder, or nonlicensee firm owner and the loan terms are not more favorable than loans extended to other persons of similar credit worthiness.

What are the bases for the board to impose discipline? (Continued)

- A violation of the Public Accountancy Act or failure to comply with a board rule contained in Title 4 WAC, **including but not limited to:**
 - (a) **An out-of-state individual exercising the practice privileges** authorized by RCW 18.04.350(2) when not qualified;
 - (b) Submission of an application for firm license on behalf of a firm licensed in another state and required to obtain a license under RCW 18.04.195 (1)(a)(iii) by an **out-of-state individual** not qualified under RCW 18.04.350(2) or authorized by the firm to make such application;
 - (c) Failure of an **out-of-state individual** exercising the practice privileges authorized under RCW 18.04.350(2) to cease offering or performing professional services in this state, individually or on behalf of a firm, when the license from the state of the out-of-state individual's principal place of business is no longer valid;
 - (d) Failure of an **out-of-state individual** exercising the practice privileges authorized under RCW 18.04.350(2) to cease offering or performing specific professional services in this state, individually or on behalf of a firm, when the license from the state of the out-of-state individual's principal place of business has been restricted from performing those specific services;
 - (e) Failure of a firm not licensed in this state to cease offering or performing professional services in this state through one or more **out-of-state individuals** whose license from the state of those individuals' principal place(s) of business is (are) no longer valid or is (are) otherwise restricted from performing the specific engagement services;
 - (f) **Failure of a licensed firm to comply with the ownership requirements of RCW 18.04.195 within a reasonable time period, as determined by the board;**
 - (g) **Failure of a firm licensed in this state or another state to comply with the board's quality assurance program requirements**, when applicable.
- **Violation of one or more of the rules** of professional conduct included in Title 4WAC.
- **Concealing another's violation** of the Public Accountancy Act or board rules.

What are the bases for the board to impose discipline? (Continued)

- **Failure to cooperate** with the board by failing to:
 - (a) Furnish any papers or documents requested or ordered to produce by the board;
 - (b) Furnish in writing a full and complete explanation related to a complaint as requested by the board;
 - (c) Respond to an inquiry of the board;
 - (d) Respond to subpoenas issued by the board, whether or not the recipient of the subpoena is the accused in the proceeding.
- **Failure to comply with an order of the board.**
- Adjudication as mentally incompetent is prima facie evidence that the person lacks the professional competence required by the rules of professional conduct.
- **Failure to timely notify** the board, in the manner prescribed by the board, of any of the following:
 - (a) *A sanction, order, suspension, revocation, or modification of a license, certificate, permit or practice rights by the SEC, PCAOB, IRS, or another state board of accountancy for any cause other than failure to pay a professional license fee by the due date or failure to meet the continuing professional education requirements of another state board of accountancy;*
 - (b) *Charges filed by the SEC, IRS, PCAOB, another state board of accountancy, or a federal or state taxing, insurance or securities regulatory body that a credentialed individual committed a prohibited act that would be a violation of board ethical or technical standards;*
 - (c) *Sanctions or orders entered against such persons by a nongovernmental professionally related standard-setting body for violation of ethical or technical standards.*

NOTE:

The following delegated Administrative Notices of Non-Compliance and Consents to Monetary Penalties are NOT considered Board Discipline.

**DELEGATION OF AUTHORITY
BY THE
WASHINGTON STATE BOARD OF ACCOUNTANCY**

I, EMILY R. ROLLINS, Chair of the State of Washington Board of Accountancy (“Board”), acting under authorization by a vote of the Board, delegate to the Executive Director the specific authority to:

Issue Administrative Notices of Noncompliance and execute Respondent Agreements Consenting to Administrative Sanctions including monetary sanctions in accordance with the guidelines in Appendix A attached hereto.

This delegation is made pursuant to the authority of RCW 18.04.045, RCW 18.04.305, and RCW 18.04.295.

DATED this 23rd day of April 2013.

/S/ _____
Emily R. Rollins, CPA
Chair, Washington State Board of Accountancy

These guidelines will be used when (a) it is the first time an individual or firm has been notified of an alleged specific type of violation of the Public Accountancy Act or Board rule, (b) the alleged violation occurred during any period the individual or firm is or was subject to Board jurisdiction, and (c) sufficient evidence is obtained by investigation to merit Board action.

	Administrative Violation:	Board Approved Sanction:
	First noncommercial use of a restricted title on <i>Business Cards, Resumes or other Applications for Employment in Washington state after establishing residency in this state but prior to obtaining credentialed status in Washington State, Provided: the individual did not use the title while a resident in conjunction with offering or rendering professional services.</i>	Administrative Notice to Cease and Desist
2.	First-time use of a restricted title by an individual within the 18-month period following successful completion of the Uniform CPA Examination but who has not yet been credentialed by the Board	\$500 fine + cost recovery + submission of proof of completion of Board approved course in ethics and regulation in Washington State regulation applicable to the practice of public accounting <i>to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.</i>
3.	First-time use of a restricted title with a lapsed individual license or CPA-Inactive status. <i>Provided: The individual did not use the CPA or CPA-Inactive title for more than 90 days after the date of transmittal by Board staff of a Notice of Noncompliance.</i>	\$750 fine+ late fee + cost recovery <i>to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.</i>
4.	First time representation on a reinstatement application that the CPA title had not been used when in fact the title had been used.	\$750 fine+ late fee + cost recovery <i>to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.</i>
5.	First time failure to obtain a firm license by a Washington resident firm owned by one individual for more than 90 days after <i>the date of transmittal</i> by Board staff of a <i>notice of noncompliance.</i>	\$750 fine + cost recovery + submission of proof of completion of Board approved course in ethics and regulation in Washington State <i>to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction..</i>

6.	First-time failure to timely change either or both individual and/or firm addresses.	\$0-\$200 fine + cost recovery (unless <i>the failure to timely change the address results in a more severe first-time administrative violation and sanction</i>) to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.
7.	First-time failure by a firm to timely notify the Board of changes in the firm name, ownership, or managing licensee of the firm's main office after <i>the date of transmittal</i> by Board staff of a <i>Notice of noncompliance</i> ..	\$500 fine + cost recovery to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.
8.	First-time CPE deficiency by a licensee, CPA-Inactive certificateholder, or nonCPA firm owner <i>not exceeding 16 hours</i> .	<p><u>Licensee:</u> Exclusive of the required 4 hour course addressing ethics and regulation in Washington State a <u>sliding scale:</u></p> <p>\$250 fine for a deficiency up to and including 8 hours;</p> <p>\$500 fine for deficiency up to and including 16 hours;</p> <p><u>Additional (separate) \$500 fine</u> if the deficiency <u>includes or is limited to failure to complete the required 4-hour course addressing ethics and regulation in Washington State.</u></p> <p><u>CPA-Inactive Certificateholder or NonCPA firm owner:</u></p> <p>\$500 fine + cost recovery for failure to complete the required 4-hour course addressing ethics and regulation in Washington State</p> <p>All amounts assessed are <i>to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.</i></p>
9.	First-time misunderstanding of courses qualifying for the CPE in regulatory ethics specific to Washington State.	\$100 fine + cost recovery + submission of proof of completion of Board approved course in ethics and regulation in the state of Washington <i>to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.</i>

10.	First-time failure to meet CPE documentation requirements <u>determined by CPE audit</u> provided the documentation deficiency results from a cause or circumstance beyond the control of the credentialed person.	\$250 fine + cost recovery + submission of proof of completion of Board approved course in ethics and regulation in the state of Washington <i>to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.</i>
11.	First-time use of titles likely to be confused with CPA, Certified Public Accountant, or CPA-Inactive by person never credentialed by this Board or not qualified for practice privileges pursuant to RCW 18.04.350(2).	\$1,500 fine + cost recovery + <i>to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.</i>
12.	First-time failure to timely deliver records requested by a client as required by WAC 4-30-051, UNLESS the lack of "timely delivery" results in financial harm to the client by a state or federal regulatory agency or governmental unit.	\$1,500 fine + cost recovery + restitution for proven client costs incurred to reconstruct essential records incurred as a result of the lack of availability of such records + submission of proof of completion of Board approved course in ethics and regulation in the state of Washington <i>to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction..</i>
13.	First-time failure to timely respond to a request for administrative information or documents directly related to information and/or documents specified in Board rules (Title 4 WAC).	\$1,500 fine + cost recovery + submission of proof of completion of Board approved course in Ethics and Regulation in the state of Washington <i>to be received by the Board's office within 90 days of signing an agreement consenting to an Administrative Sanction.</i>

If an individual or firm's conduct includes multiple first-time administration violations, the Executive Director is to impose the more severe first-time administrative sanction.

In cases of Administrative Sanction, the Board will not publish the individual's or firm's name; however, the Board will:

1. Post statistics related to these sanctions on the Board's web site
2. Comply with the Public Records Act

Effective: April 28, 2006

Revised: Delegation and Appendix A Revised: January 26, 2012, by Board vote

Appendix A Revised: July 14, 2011, by Board vote

Delegation and Appendix A Revised: April 23, 2013, by Board vote

Review Questions

1. **A CPA-Inactive certificate holder may use the safe harbor reporting language for Non-CPAs when attaching a letter to financial statements prepared by such unlicensed individuals or business organizations is not available to individuals.**
 - A. True
 - B. False
2. **If a Board Rule is more restrictive than a Rule or Interpretation codified by the AICPA in that organization's Code of Professional Conduct, the Board Rule is the rule to follow if you are a licensee, CPA-Inactive Certificate holder, CPA firm, Non-CPA firm owner, or professional employee of those persons.**
 - A. True
 - B. False
3. **Independence for purposes of rendering audit, review, compilation or other attest or assurance services is defined the same way by the AICPA Code of Conduct and the Washington State Board of Accountancy.**
 - A. True
 - B. False
4. **Compliance with all Codes of Conduct applicable to persons credentialed by the Washington State Board of Accountancy depend primarily on an individual's personal understanding and voluntary actions.**
 - A. True
 - B. False
5. **Under Board Rule an ACT DISCREDITABLE includes seeking to obtain clients by the use of coercion, intimidation, or harassing conduct.**
 - A. True
 - B. False

6. An entity registering with the Washington's elected Secretary of State may use a DBA in advertising and other public displays even if that name differs from the legal name of the entity. Accordingly, DBAs are also permitted by Board Rule for individuals and firms even if the DBA differs from the name(s) registered with the Board.
- A. True
 - B. False
7. Courses taken for CPE credit (a) will count for CPE credit at renewal only if taken after the applicant's name is initially posted in the Board's database and, therefore, available to the public; (b) credit may be received only for CPE that contributes to the CPA's professional knowledge and competency, (c) and the CPE reporting period for renewal ends on December 31st of the calendar year immediately preceding the calendar year the license is subject to renewal.
- A. True
 - B. False
8. To be eligible for continued credential renewal, you must have 116 hours of CPE eligible for credit, including no more than 24 hours of nontechnical subject matter, plus 4 hours of CPE in a Board approved course specific to Ethics and Regulation in Washington State for a total of 120 hours each reporting period.
- A. True
 - B. False
9. CPE credits in excess of the Board prescribed minimums may be carried forward into the next reporting period.
- A. True
 - B. False
10. You must retain proof of CPE taken for three years after the end of the CPE reporting period and submit acceptable forms of documentation in certain circumstances. Those circumstances include
- A. During the application process for your initial Washington State license.
 - B. You are randomly selected for CPE audit.
 - C. During your application for credential renewal.
 - D. Annually
 - E. All of the above
 - F. B
 - G. A, C, and D