Ethics and Professional Conduct for Washington CPAs –2017

#4300W
COURSE MATERIAL
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Program Publication Date 1/3/17
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Chapter Objectives

After completing this chapter, you should be able to:

- Recall the six guiding principles in the AICPA Code of Professional Conduct.
- Recognize the rules of the Code of Professional Conduct.

Introduction

The Code of Professional Conduct provides guidelines for accounting practitioners in the conduct of their professional affairs. A member of the AICPA must observe all the Rules of Conduct unless an exception applies. The need to observe the Rules of Conduct also extends to individuals who carry out tasks on behalf of an AICPA member. A member may be held responsible for a violation of the rules committed by fellow partners, shareholders, or any other person associated with him who is engaged in the practice of public accounting. The bylaws of the AICPA provide the basis for determining whether a member has violated the Rules of Conduct. If a member is found guilty of a violation, he or she may be admonished, suspended or expelled.

A member of the AICPA also must be aware of Interpretations of the AICPA Rules of Conduct. After public exposure, Interpretations of the AICPA Rules of Conduct are published by the Executive Committee of the Professional Ethics Division. Interpretations are not intended to limit the scope or application of the Rules of Conduct. A member of the AICPA who departs from the guidelines provided in the Interpretations has the burden of justifying such departure.

Question and Answer

Q: Why do I care about the AICPA rules if I am not a member of the AICPA?

A: Most states pattern their rules after the AICPA. In addition, when courts look at professional negligence, they will look to national standards such as the AICPA Code of Professional Conduct.
Observation

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 (PCAOB), 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.

I. AICPA ETHICS PYRAMID

The AICPA ethics pronouncements can be thought of as a pyramid.

A) Principles

The six principles of the Code of Professional Conduct provide the conceptual framework for the code. They are the cornerstone of ethical behavior.
B) Rules

The rules of the Code of Professional Conduct are more specific than the six principles. Members must observe the rules.

C) Interpretations

Interpretations are issued by the AICPA to better explain the Code of Professional Conduct. Only the principles and rules are considered part of the Code of Professional Conduct. Interpretations explain the code but are not part of it.

D) Rulings

The rulings apply the rules of conduct and interpretations to particular circumstances. AICPA members who depart from such rulings must justify their departures.

E) Your Behavior

The code, interpretations and rulings are meaningless if they do not impact your behavior. For this reason, your behavior is at the top of the pyramid.

II. PRINCIPLES

The Principles of the Code of Professional Conduct:

1. Responsibilities

In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities.

2. The Public Interest

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.

3. Integrity

To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity.

4. Objectivity and Independence

A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services.

5. Due Care

A member should observe the profession’s technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member’s ability.
6. Scope and Nature of Services

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.

These principles establish the basis for characterizing the responsibilities the CPA has to clients, colleagues and the public at large. The fundamental theme of the six principles is to be committed to honorable behavior, even at the sacrifice of personal advantage.

III. RULES

The following definitions are used in the Rules of the Code of Professional Conduct:

**Practice of public accounting** - The practice of accounting consists of the performance for a client, by a member or a member’s firm, while holding out as a CPA(s), of the professional services of accounting, tax, personal financial planning, litigation support services, and those professional services for which standards are promulgated by bodies designated by Council.

However, a member or a member’s firm, while holding out as a CPA(s), is not considered to be in the practice of public accounting if the member or the member’s firm does not perform, for any client, any of the professional services described in the preceding paragraph.

**Professional services** - Professional services include all services performed by a member with very few exceptions.

NEW CODIFIED CODE OF PROFESSIONAL CONDUCT EFFECTIVE 12/15/14

The AICPA has codified the Code of Professional Conduct to be more logical and user friendly. The code, rules, interpretations and rulings are essentially the same but have been grouped into functional areas based on the member’s area of practice plus a preface that is applicable to all members. (Note: throughout the AICPA Code of Professional Conduct you will see the term "Member." This term relates to you, the CPA, whether or not you are a member of the AICPA). The three functional areas are:

- Part 1: Members in Public Practice
- Part 2: Members in Business
- Part 3: Other Members (retired, unemployed, etc.)

The part number is followed by two sets of three digit numbers to identify the topic and, when applicable, the subtopic. For example, 1.100.001 relates to Part 1 (members in Public Practice); topic 100 Integrity and Objectivity; and subtopic 001 the Integrity and Objectivity rule.

By grouping all guidance for a particular type of member in one place, the CPA will save much time in researching a situation, as well as (hopefully) reach a more accurate conclusion. However, bear in mind that a member may be covered by more than one category. For example, one could work full time for an employer in industry and work part time during busy season preparing tax returns.
This chapter will focus on Part 1 of the Code of Professional Conduct: Members in Public Practice. Below is a listing of the topics covered in Part 1 followed by a discussion of each topic and selected corresponding interpretations, rulings, and other guidance by topic.

1.000 Conceptual Framework for Members in Public Practice
1.100 Integrity and Objectivity
1.200 Independence
1.300 General Standards
1.400 Acts Discreditable
1.500 Fees and Other Types of Remuneration
1.600 Advertising and Other Forms of Solicitation
1.700 Confidential Information
1.800 Form of Organization and Name

Throughout this course, we will attempt to use the actual AICPA code section references whenever possible. This will allow you to conduct further research on topics of interest to you. However, the source material is very voluminous and in many instances we have omitted entire sections of the code. In other instances we have greatly summarized the material – sometimes condensing several pages of material into a few bullet points or a single paragraph. We believe this approach is both appropriate and beneficial for the CPA seeking an overview or refresher course.

1.000.010 Conceptual Framework for Members in Public Practice

Introduction

.01 Members may encounter various relationships or circumstances that create threats to the member’s compliance with the rules. The rules and interpretations seek to address many situations; however, they cannot address all relationships or circumstances that may arise. Thus, in the absence of an interpretation that addresses a particular relationship or circumstance, a member should evaluate whether that relationship or circumstance would lead a reasonable and informed third party who is aware of the relevant information to conclude that there is a threat to the member’s compliance with the rules that is not at an acceptable level. When making that evaluation, the member should apply the conceptual framework approach as outlined in this interpretation.

.02 The code specifies that in some circumstances no safeguards can reduce a threat to an acceptable level. For example, the code specifies that a member may not subordinate the member’s professional judgment to others without violating the “Integrity and Objectivity Rule” [1.100.001]. A member may not use the conceptual framework to overcome this prohibition or any other prohibition or requirement in the code.
.03 The “Conceptual Framework for Independence” interpretation [1.210.010] of the “Independence Rule” [1.200.001] provides authoritative guidance that members should use when making decisions on independence matters that are not explicitly addressed by the “Independence Rule” and its interpretations.

1.100 Integrity and Objectivity

1.100.001 Integrity and Objectivity Rule

.01 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.

Rule 1.100.001 is very broad on purpose. The Code of Professional Conduct could not possibly proscribe every action that is to be avoided. Thus, Rule 1.100.001 could cover a variety of misconduct.

<table>
<thead>
<tr>
<th>Observation</th>
</tr>
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<tbody>
<tr>
<td>It would be impractical to define all situations that would lead to an impairment of objectivity or integrity. Integrity is difficult to judge because any particular fault by omission or commission may be the result of either honest error or lack of integrity.</td>
</tr>
</tbody>
</table>

Interpretations Under the Integrity and Objectivity Rule

1.100.005 Application of the Conceptual Framework for Members in Public Practice and Ethical Conflicts

.01 In the absence of an interpretation of the “Integrity and Objectivity Rule” [1.100.001] that addresses a particular relationship or circumstance, a member should apply the “Conceptual Framework for Members in Public Practice” [1.000.010].

.02 A member would be considered in violation of the “Integrity and Objectivity Rule” [1.100.001] if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level.

.03 A member should consider the guidance in “Ethical Conflicts” [1.000.020] when addressing ethical conflicts that may arise when the member encounters obstacles to following an appropriate course of action. Such obstacles may be due to internal or external pressures or to conflicts in applying relevant professional or legal standards, or both.
1.110 Conflicts of Interest

1.110.010 Conflicts of Interest

.01 In performing a professional service for a client, a conflict of interest may occur if a member or the member’s firm has a relationship with another person, entity, product, or service that, in the member’s professional judgment, the client or other appropriate parties may view as impairing the member’s objectivity. In such situations, adverse interest or self-interest threats may exist to the member’s compliance with the “Integrity and Objectivity Rule” [1.100.001].

Certain professional engagements, such as audits, reviews, and other attest services, require independence. Independence impairments under 1.200.001, its interpretations, and rulings cannot be eliminated by such disclosure and consent.

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.
Question and Answer

**Q:** A CPA firm represents two clients. The clients have adverse interests in a controversy involving a limited partnership of which each client owns a percentage. Can the CPA continue to advise both clients? The work the CPA performs does not require independence.

**A:** The CPA would have a conflict of interest. If the relationships are disclosed to and consent is obtained from all appropriate parties, the CPA could continue to advise both parties. However, the CPA would have to observe 1.700.001: Confidential Client Information Rule.

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1.120 Gifts and Entertainment

1.120.010 Offering or Accepting Gifts or Entertainment

.01 For purposes of this interpretation, a client includes the client, an individual in a key position with the client, or an individual owning 10 percent or more of the client's outstanding equity securities or other ownership interests.

.02 When a member offers to a client or accepts gifts or entertainment from a client, self-interest, familiarity, or undue influence threats to the member's compliance with the "Integrity and Objectivity Rule" [1.100.001] may exist.

.03 Threats to compliance with the "Integrity and Objectivity Rule" [1.100.001] would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards and the member would be presumed to lack integrity in violation of the "Integrity and Objectivity Rule" in the following circumstances:

   a) The member offers to a client or accepts gifts or entertainment from a client that violate the member's or client's policies or applicable laws, rules, and regulations; and

   b) The member knows of the violation or demonstrates recklessness in not knowing.

.04 A member should evaluate the significance of any threats to determine if they are at an acceptable level. Threats are at an acceptable level when gifts or entertainment are reasonable in the circumstances. The member should exercise judgment in determining whether gifts or entertainment would be considered reasonable in the circumstances. The following are examples of relevant facts and circumstances:

   a) The nature of the gift or entertainment

   b) The occasion giving rise to the gift or entertainment

   c) The cost or value of the gift or entertainment
d) The nature, frequency, and value of other gifts and entertainment offered or accepted

e) Whether the entertainment was associated with the active conduct of business directly before, during, or after the entertainment

f) Whether other clients also participated in the entertainment

g) The individuals from the client and member’s firm who participated in the entertainment

1.130 Preparing and Reporting Information

1.130.010 Knowing Misrepresentations in the Preparation of Financial Statements or Records

.01 Threats to compliance with the “Integrity and Objectivity Rule” [1.100.001] would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards and the member would be considered to have knowingly misrepresented facts in violation of the “Integrity and Objectivity Rule,” if the member

a) makes, or permits or directs another to make, materially false and misleading entries in an entity’s financial statements or records;

b) fails to correct an entity’s financial statements or records that are materially false and misleading when the member has the authority to record the entries; or

c) signs, or permits or directs another to sign, a document containing materially false and misleading information.

1.130.020 Subordination of Judgment

.01 The “Integrity and Objectivity Rule” [1.100.001] prohibits a member from knowingly misrepresenting facts or subordinating his or her judgment when performing professional services for a client, for an employer, or on a volunteer basis. This interpretation addresses differences of opinion between a member and his or her supervisor or any other person within the member’s organization.

.02 Self-interest, familiarity, and undue influence threats to the member’s compliance with the “Integrity and Objectivity Rule” [1.100.001] may exist when a member and his or her supervisor or any other person within the member’s organization have a difference of opinion relating to the application of accounting principles; auditing standards; or other relevant professional standards, including standards applicable to tax and consulting services or applicable laws or regulations.

.03 A member should evaluate the significance of any threats to determine if they are at an acceptable level. Threats are at an acceptable level if the member concludes that the position taken does not result in a material misrepresentation of fact or a violation of applicable laws or regulations. If threats are not at an acceptable level, the member should apply the safeguards in paragraphs .05–.07 to eliminate or reduce the threat(s) to an acceptable level so that the member does not subordinate his or her judgment.
Question and Answer

Q: Cindy Steffen is a CPA and the controller of Company X Inc. In preparing the financial statements for the quarter ended March 31, 2014, Steffen proposes to reduce obsolete inventory to net realizable value. The obsolete items represent a significant amount of total inventory. The CFO concurs with Steffen’s position. However, he decides not to go against the CEO whose position is that reducing the inventory this quarter is a discretionary decision and the CEO would prefer to record any such reduction at year end, after Company X completes its anticipated public offering of stock later this year. What are the ethical obligations of Steffen’s in this situation?

A: To avoid subordinating her judgment, Steffen should first determine whether the inventory writedown is material. If so, she should restate her concerns to the CFO and CEO and, if the latter persists in not supporting the writedown, Steffen should bring the matter to the attention of the audit committee of the board of directors. She should document the understanding of the facts, the accounting principles involved, the application of the principles to the facts, and the parties with whom discussions were held. Steffen should consider any responsibility that may exist to go outside the company, although legal counsel should be sought on this matter.

1.200 Independence

1.200.001 Independence Rule

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

Interpretations Under the Independence Rule

1.200.005 Application of the Conceptual Framework for Independence and Ethical Conflicts

.01 In the absence of an interpretation of the “Independence Rule” [1.200.001] that addresses a particular relationship or circumstance, a member should apply the “Conceptual Framework for Independence” interpretation [1.210.010].

.02 A member would be considered in violation of the “Independence Rule” [1.200.001] if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level.

.03 A member should consider the guidance in “Ethical Conflicts” [1.000.020] when addressing ethical conflicts that may arise when the member encounters obstacles to following an appropriate course of action. Such obstacles may be due to internal or external pressures or to conflicts in applying relevant professional or legal standards, or both.
Independence is a highly subjective term because it concerns an individual’s ability to act with integrity and objectivity. Integrity relates to an auditor’s honesty, while objectivity is the ability to be neutral during the conduct of the engagement and the preparation of the auditor’s report. Two facets of independence are independence in fact and independence in appearance. The second general standard of generally accepted auditing standards requires that an auditor be independent in mental attitude in all matters relating to the engagement. In essence, the second standard embraces the concept of independence in fact. However, independence in fact is impossible to measure, since it is a mental attitude; the Code of Professional Conduct takes a more pragmatic approach to the concept of independence.

1.210 Conceptual Framework Approach


Introduction

.01 It is impossible to enumerate all relationships or circumstances in which the appearance of independence might be questioned. Thus, in the absence of an independence interpretation that addresses a particular relationship or circumstance, a member should evaluate whether that relationship or circumstance would lead a reasonable and informed third party who is aware of the relevant information to conclude that there is a threat to either the member’s or firm’s independence, or both, that is not at an acceptable level. When making that evaluation, a member should apply the conceptual framework approach as outlined in this interpretation to analyze independence matters. A member may also wish to consider the conceptual framework approach described in this interpretation to gain a better understanding of the conclusions reached in other interpretations in ET section 1.200, “Independence.”

.02 The code specifies that in some circumstances no safeguards can reduce an independence threat to an acceptable level. For example, the code specifies that a covered member may not own even an immaterial direct financial interest in an attest client because there is no safeguard to reduce the self-interest threat to an acceptable level. A member may not use the conceptual framework to overcome this prohibition or any other prohibition or requirement in an independence interpretation.

1.230 Fees

1.230.010 Unpaid Fees

.01 The existence of unpaid fees to a covered member for professional services previously rendered to an attest client may create self-interest, undue influence, or advocacy threats to the covered member’s compliance with the “Independence Rule” [1.200.001].

.02 Threats to the covered member’s compliance with the “Independence Rule” [1.200.001] would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards if a covered member has unpaid fees from an attest client for any previously rendered professional service provided more than one year prior to the date of the current-year report. Accordingly, independence would be impaired. Unpaid fees include fees that are unbilled or a note receivable arising from such fees.
.03 This interpretation does not apply to fees outstanding from an attest client in bankruptcy.

1.240 Financial Interests

1.240.010 Overview of Financial Interests

.01 If a covered member had or was committed to acquire any direct financial interest in an attest client during the period of the professional engagement, the self-interest threat to the covered member’s compliance with the “Independence Rule” [1.200.001] would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards. Accordingly, independence would be impaired.

.02 If a covered member had or was committed to acquire any material indirect financial interest in an attest client during the period of the professional engagement, the self-interest threat to the covered member’s compliance with the “Independence Rule” [1.200.001] would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards. Accordingly, independence would be impaired.

.03 If 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 an attest client’s outstanding equity securities or other ownership interests during the period of the professional engagement, the self-interest threat to compliance with the “Independence Rule” [1.200.001] would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards. Accordingly, independence would be impaired.

Application of the Independence Rules to Close Relatives

Independence would be considered to be impaired if:

1. An individual participating on the attest engagement team has a close relative who had:
   
   a) A key position with the client, or

   b) A financial interest in the client that:
      
      i. Was material to the close relative and of which the individual has knowledge; or

      ii. Enabled the close relative to exercise significant influence over the client.

2. An individual in a position to influence the attest engagement or any partner in the office in which the lead attest engagement partner primarily practices in connection with the attest engagement has a close relative who had:

   a) A key position with the client, or

   b) A financial interest in the client that
i. Was material to the close relative and of which the individual or partner has knowledge; and

ii. Enabled the close relative to exercise significant influence over the client

### Question and Answer

**Q:** A potential audit client is owned by the CPA's stepbrother. Would the CPA be independent with regard to the potential client? What if the CPA is closer to the stepbrother than to his own brother?

**A:** A stepbrother is not considered a close relative under the independence rules and normally would not impair independence. However, if the relationship between the CPA and stepbrother was close enough to lead a reasonable person, aware of all the facts, to conclude that the situation poses an unacceptable threat to the appearance of independence and the CPA's objectivity, then the relationship would impair independence.

### 1.300 General Standards

#### 1.300.001 General Standards Rule

.01 A member shall comply with the following standards and with any interpretations thereof by bodies designated by Council:

- **a)** Professional Competence. Undertake only those professional services that the member or the member's firm can reasonably expect to be completed with professional competence.
- **b)** Due Professional Care. Exercise due professional care in the performance of professional services.
- **c)** Planning and Supervision. Adequately plan and supervise the performance of professional services.
- **d)** Sufficient Relevant Data. Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

In general, these standards are applicable to all professional services rendered by an accounting firm. For example, an accountant who performs a consulting services engagement must properly plan and supervise the job.

Rule 1.300.001 requires that a firm have a certain level of expertise before an audit, tax, or consulting engagement is accepted. This does not suggest that an accounting firm must have complete knowledge in an area before the engagement is accepted -- a lack of competence is not apparent just because an accounting firm accepts a client knowing that additional research may be necessary to complete the job.
Case Study: Competency, Auditing Standards and Other Professional Standards

Licensee was subject to a Quality Assurance Review by the U.S. Department of Housing and Urban Development, Real Estate Assessment Center (HUD). This review included licensee’s audit work for two county housing authorities. The opinion issued by HUD found that the licensee did not comply with all applicable audit standards while performing audits of HUD assisted properties. Documentation for the audit work was not of sufficient standard.

**LIKELY DISCIPLINARY ACTION:** Violation of 1.300.001 – General Standards Rule.

1.310 Compliance With Standards

1.310.001 Compliance With Standards Rule

.01 A member who performs auditing, review, compilation, management consulting, tax, or other professional services shall comply with standards promulgated by bodies designated by Council.

1.310.001 requires members to observe technical standards promulgated by bodies designated by the AICPA Council. To date, the bodies designated by the Council are the Auditing Standards Board (ASB), Accounting and Review Services Committee (ARSC), Management Consulting Services Executive Committee (MCSEC), and Tax Executive Committee.

**Observation**

The Code of Professional Conduct does not refer to Audit and Accounting Guides that may be issued by a committee or task force established by the AICPA. Although each Audit Guide contains a preamble that states that a Guide does not have the authority of a pronouncement by the ASB, it does note that a member may be called upon to justify departures from the Guide if the member’s work is challenged.

1.320 Accounting Principles

1.320.001 Accounting Principles Rule

.01 A member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data.
taken as a whole. If, however, the statements or data contain such a departure and the member can demonstrate that due to unusual circumstances the financial statements or data would otherwise have been misleading, the member can comply with the rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement.

**Observation**

The AICPA Council has designated the FASB, GASB, IASB, PCAOB, and FASAB as bodies to promulgate accounting principles. In addition, several AICPA committees have been designated to promulgate standards in their respective subject areas.

1.320.001 also provides flexibility in the application of accounting principles.

When the auditor concludes that a written accounting rule should not be followed, the auditor’s standard report must be expanded to include an explanatory paragraph. The explanatory paragraph would describe the nature of the departure; however, the opinion expressed would be an unqualified opinion and no reference to the explanatory paragraph would be made in the opinion paragraph.

### 1.400 Acts Discreditable

**1.400.001 Acts Discreditable Rule**

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

**NOTE:** 1.400.001 is very broad. It is basic to ethical conduct, and only through its observance can the profession expect to win the confidence of the public. What constitutes a discreditable act is highly judgmental. There has been no attempt to be specific about what constitutes a discreditable act; however, the AICPA bylaws (Section 7.3) state that the following actions will lead to membership suspension or termination, without the need for a disciplinary hearing:

- If a member commits a crime punishable by imprisonment for more than one year.
- If a member willfully fails to file an income tax return that he or she, as an individual taxpayer, is required by law to file.
- If a member files a false or fraudulent income tax return on his or her behalf, or on a client’s behalf.
- If a member willfully aids in the preparation and presentation of a false and fraudulent income tax return of a client.
- If a member’s certificate as a certified public accountant, or license or permit to practice as such, is revoked by a governmental authority as a disciplinary measure.
In addition, interpretations under the Acts Discreditable Rule identify the following discreditable acts:

- Discrimination or harassment in employment practices.
- Solicitation or disclosure of CPA examination questions or answers.
- Failure to file a tax return of pay a tax liability.
- Negligence in the preparation of financial statements or records.
- Negligence in the preparation of reports to governmental bodies, commissions, or other regulatory agencies.
- Failure to follow applicable standards in conducting governmental audits.
- Use of prohibited indemnification agreements.
- Disclosure or use of confidential information obtained from employment or volunteer activities.
- Using the CPA credential in violation of state law.
- Failure to comply with the request to return client records.
- Removing client files or proprietary information from a former employer.
- Use of confidential information from nonclient services.

1.400.090 False, Misleading, or Deceptive Acts in Promoting or Marketing Professional Services

.01 A member would be in violation of the “Acts Discreditable Rule” [1.400.001] if the member promotes or markets the member’s abilities to provide professional services or makes claims about the member’s experience or qualifications in a manner that is false, misleading, or deceptive.

1.500 Fees and Other Types of Remuneration

1.510 Contingent Fees

1.510.001 Contingent Fees Rule

.01 A member in public practice shall not

a) Perform for a contingent fee any professional services for, or receive such a fee from a client for whom the member or the member’s firm performs,

i. an audit or review of a financial statement; or

ii. a compilation of a financial statement when the member expects, or reasonably might expect, that a third party will use the financial statement and the member’s compilation report does not disclose a lack of independence; or
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iii. an examination of prospective financial information; or

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

.02 The prohibition in a. above applies during the period in which the member or member’s firm is engaged to perform any of the services listed above and the period covered by any historical financial statements involved in any such listed services.

.03 Except as stated in the next sentence, a contingent fee is a fee 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. Solely for purposes of this rule, fees are not regarded as being 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.

<table>
<thead>
<tr>
<th>Question and Answer</th>
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<tbody>
<tr>
<td><strong>Q:</strong> A CPA offers a new client a free one-hour consultation or a 10 percent discount on tax return preparation. Is this acceptable?</td>
</tr>
<tr>
<td><strong>A:</strong> Yes. These are not prohibited transactions.</td>
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</table>

.04 A member’s fees may vary depending, for example, on the complexity of services rendered.

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<th>Note</th>
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<tbody>
<tr>
<td>For example, charging a new client $500 for completing a tax return when a similar continuing client is charged only $300 for a similar tax return is permitted, since a first year engagement is more difficult than a repeat engagement.</td>
</tr>
</tbody>
</table>

The accounting profession has had a long-standing tradition that a contingent fee would infringe on the CPA’s ability to be independent. A contingent fee is based on an arrangement whereby the client is not required to pay the CPA unless a specified finding or result is attained. For example, a contingent fee arrangement would exist if the auditor’s fee is dependent on the net proceeds of a public stock offering. Engagement fees should be determined by such factors as the number of hours required to perform the engagement, the type of personnel needed for the engagement, and the complexity of the engagement.

Fees are not considered to be contingent if they are determined (1) by courts or other public authorities or (2) by judicial proceedings or governmental agencies in the case of tax matters.

The period of prohibition includes the date covered by the financial statements and the period during which the attestation service (and compilation service, as described above) is performed. For example, if the CPA is auditing a client’s financial statements for the year ended December 31, 2014, and the date
of the auditor’s report is March 12, 2015, no services could be performed on a contingent fee basis by the auditor for the period from January 1, 2014, through March 12, 2015.

1.510.001 also prohibits the CPA from charging a contingent fee to prepare an original or amended tax return or claim for a refund. While independence is not an issue in performing tax services, the AICPA takes the position that it would be unprofessional to charge a fee, for example, based on the amount of refund that may be claimed on the tax return.

1.520 Commissions and Referral Fees

1.520.001 Commissions and Referral Fees Rule

.01 Prohibited commissions. A member in public practice shall 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 the member or member’s firm also performs for that client

   a) an audit or review of a financial statement; or

   b) a compilation of a financial statement when the member expects, or reasonably might expect, that a third party will use the financial statement and the member’s compilation report does not disclose a lack of independence; or

   c) an examination of prospective financial information.

.02 This prohibition applies during the period in which the member is engaged to perform any of the services listed above and the period covered by any historical financial statements involved in such listed services.

.03 Disclosure of permitted commissions. A member in public practice who is not prohibited by this rule from performing services for or receiving a commission and who is paid or expects to be paid a commission shall disclose that fact to any person or entity to whom the member recommends or refers a product or service to which the commission relates.

.04 Referral fees. Any member who accepts a referral fee for recommending or referring any service of a CPA to any person or entity or who pays a referral fee to obtain a client shall disclose such acceptance or payment to the client.

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<tr>
<th>Note</th>
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<tbody>
<tr>
<td>A CPA cannot receive a commission for recommending a client’s product or services if the CPA audits or reviews that client’s financial statements or examines that client’s prospective financial information. In addition, no commissions can be received when the CPA compiles a client’s financial statements if the CPA believes that a third party will rely on the statements, unless any lack of independence is disclosed in the compilation report.</td>
</tr>
</tbody>
</table>
Observations

#1 - When a CPA sells products that the CPA has title to directly to clients, this is not considered a commission. However, care should be exercised to ensure that the arrangement does not impair independence.

#2 - As with contingent fees, the most important point for CPAs in public practice to remember is that although most Boards of Accountancy allow for commissions with varying requirements, some states continue to prohibit commissions altogether.

#3 - The Commissions and Referral Fee Rule has never prohibited calculating the price to be paid for the purchase of an accounting practice as a percentage of fees the purchaser receives from these new clients over some specified period of time such as one, two, three or more years. The AICPA Professional Ethics Executive Committee has stated that the Rule does not prohibit the purchase of a portion of a practice (such as the tax practice related to individual returns) or even the purchase of a single client. Further, the purchase may be made through a non-CPA broker who will receive a portion of the purchase price.

#4 - The Rule also does not prohibit the payment of bonuses to employees even though practice development efforts on the part of the employee are a factor in determining the amount of the bonus.

#5 - The markup of a subcontractor’s fees is not considered a commission.

#6 - A member’s spouse may receive a commission for referring a product to a client provided the spouse is not part of the member’s firm. However, care must be taken to avoid any potential conflict of interest.
1.600 Advertising and Other Forms of Solicitation

1.600.001 Advertising and Other Forms of Solicitation Rule

.01 A member in public practice shall not seek to obtain clients by advertising or other forms of solicitation in a manner that is false, misleading, or deceptive. Solicitation by the use of coercion, over-reaching, or harassing conduct is prohibited.

Advertising or other forms of solicitation that are false, misleading, or deceptive are not in the public interest and are prohibited. Such activities include those that:

• Create false or unjustified expectations of favorable results

• Imply the ability to influence any court, tribunal, regulatory agency or similar body or official

• Contain a representation that specific professional services in current or future periods will be performed for a stated fee, estimated fee or fee range when it was likely at the time of the representation that such fees would be substantially increased and the prospective client was not advised of that likelihood

• Contain any other representations that would be likely to cause a reasonable person to misunderstand or be deceived.

Case Study: Public Communications and Advertising

Smith CPA LLC circulated an advertisement in a local newspaper that stated the following:

“Professional Service Warranty which guarantees you the largest refund possible with the lowest tax liability.”

The advertisement guaranteed the reader the largest refund possible with the lowest tax liability. The advertisement did not state or explain how the services could be verified to provide the largest refund or the lowest tax liability.
1.700 Confidential Information

1.700.001 Confidential Client Information Rule

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

.02 This rule shall not be construed (1) to relieve a member of his or her professional obligations of the “Compliance With Standards Rule” [1.310.001] or the “Accounting Principles Rule” [1.320.001], (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.

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<thead>
<tr>
<th>Question and Answer</th>
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<tbody>
<tr>
<td><strong>Q:</strong> The IRS requested that a CPA provide copies of documents relating to a prior client of the CPA. The CPA is not able to locate the client to obtain permission to release the documents. Should the CPA turn the information over to the IRS?</td>
</tr>
<tr>
<td><strong>A:</strong> No. A CPA cannot release confidential client information without the specific consent of the client unless the CPA receives a validly issued and enforceable subpoena or summons. Information obtained by a licensee can be disclosed in response to an official inquiry from a federal or state government regulatory agency. However, the IRS is considered to be a taxing agency and not a government regulatory agency.</td>
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</table>
The theft of laptop computers and the sensitive data they contain is a growing problem for CPAs – in one week, three CPAs contacted the Board regarding the theft of laptops from their firms.

There are three major aspects to laptop security – physical security, data protection, and tracking/recovery.

One of the first things to do after purchasing a laptop is to make a copy of the purchase receipt, serial number, and description of the laptop and keep that information in a location separate from the laptop. This information will be invaluable if the laptop is lost or stolen.

In addition, asset tag or engrave the laptop. Engraving your firm name and phone number or address may increase the likelihood of getting the laptop returned if it is stolen and recovered. Tamper-proof asset tags may serve as a deterrent to a thief who must choose between stealing an unmarked laptop or a marked laptop. Why? Asset tags are difficult to remove and may hamper the thief’s ability to sell the laptop on the open market.

Industry experts estimate that one in eight laptops is at risk of theft. With such a daunting statistic, laptop users may feel resigned to being the victim of theft. However, one of the cheapest and most cost-effective solutions to deter the theft of a laptop is to attach a security cable (similar to the locks used on bicycles) to the laptop.

With cable locks, a steel clip provided by the manufacturer is installed in a security slot on the back or side of the laptop and a steel cable is threaded through the clip and wrapped around a heavy object such as a desk leg or support pole. The two ends of the cable are then secured with a locking device. If the laptop does not contain a security slot or if the desk does not provide a location for suitable anchorage, special adhesive pads containing an anchorage slot are available. Although cable locks are not infallible, they will at least make the thief work a little harder to get the laptop.

Another effective method of protecting a laptop is to use a laptop safe. An advantage of a laptop safe is that when the laptop is locked in a safe, the PC cards and peripherals are secure, a protection that is not available with cable locks.

The two main types of safes available are portable safes that can safely attach to most work surfaces and car safes which are designed to protect valuables while they are stored in the trunk of a vehicle. (NOTE: Never leave a laptop in plain sight in a vehicle; doing so is inviting a thief to break in the vehicle and take the laptop.)

Whereas cable locks and safes are designed to stop (or at least slow down) an opportunistic thief, alarms and motion detectors are intended to make the potential robber so conspicuous that he or she aborts the crime.
Products range from simple motion detectors to sensors that detect the unplugging of cables. Some products are designed to lock down the laptop if it is moved out of a designated range. Other products rely on nothing more than movement of the object to which it is attached; if the laptop to which the sensor is attached is moved, an alarm will sound.

Let’s assume that, despite taking the appropriate physical security measures, your laptop has been stolen. How worried would you be about the security of the data on the machine?

Safeguarding data when it is in unauthorized hands is a matter of controlling access and encrypting data. If the first thing a thief sees when turning on a laptop is, “please enter boot password,” he or she knows that it will take some effort to access the information on the machine.

Many machines allow the owner to set a boot password and a user will be prompted three times to enter the correct password. If there are three password failures, the machine will refuse to boot. However, if the machine is restarted, the user will have three more chances to enter the right password.

Removing a password-protected BIOS (basic input output system) and boot sequence typically involves physically opening the computer and removing the CMOS (complementary metal oxide semiconductor) battery (which may clear the BIOS information) or shorting some jumpers to reset the BIOS to a default state.

If you are running an operating system that supports proper logins, setting a password is not only a good idea, it is required. To successfully login to the computer, the user must provide a login name and password. If the information entered is incorrect, the operating system will refuse to allow the user to become an active user.

When creating a password, make sure you create a strong password. For a password to be considered strong, it must be eight or more characters (14 characters or longer is ideal); it must combine letters, numbers, and symbols; it must use a mix of uppercase letters and lowercase letters; and it should use words and phrases that are easy for you to remember, but difficult for others to guess. (NOTE: Avoid using your login name, your name, your birthday, anniversary, social security number, telephone number, etc., as part of your password.) Don’t forget to change your passwords on a regular basis.

Although applying strong passwords to your laptop will make it more difficult for a casual thief to log in as “you,” and therefore gain access to the information on your machine, passwords should not be relied upon as the sole piece of security on a laptop.

Even if an unauthorized user gains access to your laptop, encryption will protect the information stored on your machine. When you encrypt a file or folder, you are converting it to a format that can’t be read by another user. When a file or folder is encrypted, an encryption key is added to the files or folder that you selected to encrypt and the key is needed to read the file.
Therefore, most firms who go this route will seek a third-party product which relies on encryption techniques above and beyond the Windows operating system.

CPAs using encryption technology need assurances that application databases such as tax, audit automation, and time and billing will operate correctly from encrypted disks or folders. The major software vendors test their products under a variety of scenarios and will be able to advise their customers of encryption solutions which are fully compatible with their products.

While encryption will protect the sensitive information on your laptop, it does nothing to retrieve the data on a lost or stolen machine. To do that, you must back up your files and store them in a secure location. Ideally, files should be backed up on a network server, but if that is not possible, there are other options.

External drives, flash drives, and CDs are excellent choices for backing up your files.

While encryption strategies will help safeguard the data on a lost or stolen notebook computer, they do nothing to help recover the missing machine – the FBI estimates that just 3% of stolen or lost laptops are recovered.

Until recently, luck was the determining factor in recovering a lost or stolen machine, but new technology is providing users with the ability to track stolen or lost laptops.

With tracking programs, once a computer is reported lost or stolen, the tracking company will wait for the laptop to send a location signal (sent whenever the machine is connected to the Internet). When a signal is retrieved, the program will be instructed to broadcast as much information as it can about the current connection (originating phone number, IP address, service provider, etc.). When enough information has been collected, the tracking company will notify the appropriate law enforcement agency which may be able to recover the machine.

Other programs provide the user with the ability to execute commands remotely to the missing machine (if connected to the Internet), theoretically allowing the user to delete all of the important information on the hard drive.

If you haven’t yet experienced the loss of a computer full of sensitive and confidential data, you are living on borrowed time. Plan ahead now to minimize the risk, reduce your exposure, and enhance your chances of recovery. Manage your risks through proactive strategies. Develop a security policy and implement it.

This is not an issue you can address once and have solved forever. Threats will change, risks will change, and requirements will change. Be sure your plans, your people, and your processes change along with them. Conduct periodic training updates, ensure software is kept up to date with the latest versions, and keep your emergency reaction checklists current.
Business process outsourcing – contracting business processes to outside service vendors – is not a new concept, and the accounting industry has long taken advantage of the benefits of outsourcing. However, a growing trend among CPA firms is causing concern among regulators.

A number of CPA firms, both multi-state and local, have begun using the burgeoning outsourcing and technology markets in India to process client tax returns. Although the AICPA Code and Rules do not expressly prohibit the practice of outsourcing the preparation of client tax returns, there are several rules a CPA must consider when outsourcing services.

One prime concern is maintaining the confidentiality of client records. Pursuant to Rule 1.700.001, a CPA shall not disclose any confidential information except with the consent of the client.

To process the tax return, the preparer must have sensitive client information such as the client’s Social Security Number, date of birth, bank and brokerage statements, credit card information, salary, etc. In short, much of the information can be used to perpetrate identity theft.

If your CPA firm has professional liability insurance coverage, you should check with your insurance carrier to see if your policy covers the firm when using an outsource center.

The accuracy of the tax return remains the ultimate responsibility of the CPA firm, and all returns prepared by an outsource center must be reviewed by the CPA firm and the signing CPA.

If your CPA firm is considering outsourcing the preparation of client tax returns, remember that a CPA is responsible for ensuring that any partner, shareholder, officer, director, unlicensed principal, proprietor, employee or agent, including outsource personnel, comply with the AICPAs rules on Professional Ethics and Conduct.

In addition, the IRS and most states impose criminal and civil penalties for the unauthorized disclosure of tax return data.

1.800 Form of Organization and Name

1.800.001 Form of Organization and Name Rule

.01 A member may practice public accounting only in a form of organization permitted by law or regulation whose characteristics conform to resolutions of Council.

.02 A member shall not practice public accounting under a firm name that is misleading.

.03 Names of one or more past owners may be included in the firm name of a successor organization.

.04 A firm may not designate itself as “Members of the American Institute of Certified Public Accountants” unless all its CPA owners are members of the AICPA.
Question and Answer

Q: Three CPA firms wish to form an association – not a partnership – to be known as “Smith, Jones, Nash and Assoc.” Is there any impropriety in this?

A: The use of such a title is not permitted since it might mislead the public into thinking a true partnership exists. Instead, each firm is advised to use its own name on its letterhead, indicating the other two as correspondents.

Note

Over the past several decades, the character of the practice of accounting has broadened to include a variety of activities that are beyond the scope of accounting. These activities include, among others, environmental auditing, executive recruitment, and the design of sophisticated computer systems that are not part of the client’s accounting system. With the expansion of the types of services provided by accounting firms, there is an obvious need to recruit personnel who do not have an accounting/auditing background. For many accounting firms, these nontraditional professionals are increasingly important to their growth and development.

Practice Pointer: Non-CPA Ownership of CPA Firms

The AICPA allows a CPA firm to be owned by non-CPAs if the form of ownership is sanctioned by the particular state and if the following guidelines are observed:

- Fifty-one percent of the ownership (as measured by financial interest and voting rights) must be held by CPAs.
- A non-CPA owner must be actively engaged in providing services to clients of the firm.
- A CPA must be ultimately responsible for all services provided by the firm that involve financial statement attestation, compilation services, and “other engagements governed by Statements on Auditing Standards or Statements on Standards for Accounting and Review Services.”
- A non-CPA may not hold him or herself out as a CPA, but may be referred to as a(n) principal, owner, officer, member, shareholder or other title allowed by state law.

While the resolution allows for accounting firm ownership by non-CPAs, those individuals are not eligible for membership in the AICPA.
Observation

Each state is responsible for determining what forms of ownership may be used to practice public accounting; however, the AICPA notes that a practitioner can practice only in a business organization form that conforms to resolutions of the AICPA Council.
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# Chapter 1: Test Your Knowledge

The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). They are included as an additional tool to enhance your learning experience and do not need to be submitted in order to receive CPE credit.

We recommend that you answer each question and then compare your response to the suggested solutions on the following page(s) before answering the final exam questions related to this chapter (assignment).

<table>
<thead>
<tr>
<th>1.</th>
<th>Which of the following is found as the base of the AICPA Ethics Pyramid:</th>
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<tbody>
<tr>
<td></td>
<td>A. Your behavior</td>
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<td></td>
<td>B. Principles</td>
</tr>
<tr>
<td></td>
<td>C. Rules</td>
</tr>
<tr>
<td></td>
<td>D. Interpretations</td>
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<tr>
<th>2.</th>
<th>Which of the following is not one of Principles of the AICPA Code of Professional Conduct:</th>
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<tbody>
<tr>
<td></td>
<td>A. Honesty</td>
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<td></td>
<td>B. Integrity</td>
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<tr>
<td></td>
<td>C. Responsibilities</td>
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<tr>
<td></td>
<td>D. Due care</td>
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</tbody>
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<tr>
<th>3.</th>
<th>The AICPA codified the Code of Professional Conduct into three functional areas, including all of the following except:</th>
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<tbody>
<tr>
<td></td>
<td>A. Members in Public Practice</td>
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<tr>
<td></td>
<td>B. Members in Business</td>
</tr>
<tr>
<td></td>
<td>C. Member in Public Practice and Business</td>
</tr>
<tr>
<td></td>
<td>D. Other Members (retired, unemployed, etc.)</td>
</tr>
<tr>
<td>4.</td>
<td><strong>The General Standards Rule [1.300.001]</strong> provides guidance on professional competence. Which of the following is true regarding a CPA accepting an engagement under 1.300.001:</td>
</tr>
<tr>
<td>A.</td>
<td>a CPA may generally accept any engagement in which the CPA can meet the expectations of the client</td>
</tr>
<tr>
<td>B.</td>
<td>a CPA may accept an engagement only if, at the time of acceptance, the CPA possesses sufficient professional competence to complete the engagement</td>
</tr>
<tr>
<td>C.</td>
<td>1.300.001 generally prohibits CPAs from representing taxpayers before the Internal Revenue Service unless the CPA has also earned the Enrolled Agent designation</td>
</tr>
<tr>
<td>D.</td>
<td>1.300.001 allows a CPA to accept an engagement in which the CPA lacks professional competence provided the CPA can obtain the necessary competence prior to completing the engagement</td>
</tr>
</tbody>
</table>

| 5. | **The Acts Discreditable Rule [1.400.001]** is purposely very broad and very non-specific as to exactly when a violation occurs. Which of the following would most likely be a violation of 1.400.001 “Acts Discreditable”: |
| A. | a CPA is convicted of a traffic offense and is fined $400 |
| B. | a CPA cuts his professional services fee by 80% for a client who is near bankruptcy and prepays the estimated fee |
| C. | a CPA files a false personal tax return but is not convicted of any crime due to the suppression of evidence that is inadmissible in court |
| D. | a CPA mistakenly fails to sign his personal tax return but does sign it when requested by the tax authorities |
CHAPTER 1: SOLUTIONS AND SUGGESTED RESPONSES

Below are the solutions and suggested responses for the questions on the previous page(s). If you choose an incorrect answer, you should review the pages as indicated for each question to ensure comprehension of the material.

| 1. | A. Incorrect. The Code, interpretations, and rulings are meaningless unless they impact your behavior. Therefore, your behavior is at the top of the pyramid.  
B. **CORRECT**. The six principles of the Code of Professional Conduct provide the conceptual framework for the Code, and they are the cornerstone of ethical behavior.  
C. Incorrect. The rules of the Code of Professional Conduct are more specific than the principles.  
D. Incorrect. The interpretations are issued by the AICPA to better explain the Code. The Interpretations explain the Code but are not part of it.  
*(See page 2 of the course material.)* |
| 2. | A. **CORRECT**. The other Principles are the public interest, objectivity and independence, and scope and nature of services.  
B. Incorrect. Members should perform all professional responsibilities with the highest sense of integrity to maintain and broaden public confidence.  
C. Incorrect. Members should exercise sensitive professional and moral judgments in all their activities.  
D. Incorrect. Members should observe the profession’s technical and ethical standards, continually strive to improve competence and the quality of services, and discharge professional responsibility to the best of the member’s ability.  
*(See pages 3 to 4 of the course material.)* |
| 3. | A. Incorrect. The groupings are based on the member’s area of practice, including public practice. The term member relates to any CPA, whether or not he or she is a member of the AICPA.  
B. Incorrect. The groupings are based on the member’s area of practice, including business. The term member relates to any CPA, whether or not he or she is a member of the AICPA.  
C. **CORRECT**. There is not a part that includes a combination of these groups.  
D. Incorrect. The groupings are based on the member’s area of practice, including a grouping of other members that do not fall into the main two categories.  
*(See page 4 of the course material.)* |
4. **A.** Incorrect. Meeting client expectations is important. However, 1.300.001 relates to professional competence, not client expectations.  
**B.** Incorrect. The key period of time for determining professional competence is at the end of an engagement, not at the beginning of the engagement.  
**C.** Incorrect. 1.300.001 is more general in nature and does not prohibit CPAs from performing tax services for clients.  
**D.** **CORRECT.** A CPA that accepts an engagement while lacking professional competence could gain the required competence by taking a course on the topic or seeking the assistance of a colleague.  
*(See page 13 of the course material.)*

5. **A.** Incorrect. Although committing a crime punishable by imprisonment for more than one year is a violation of 1.400.001, a relatively minor traffic violation is not a violation.  
**B.** Incorrect. Besides being a benevolent act, cutting one’s fee may be a wise business move if billing the full fee in arrears resulted in no recovery due to bankruptcy.  
**C.** **CORRECT.** Filing a false or fraudulent tax return is a violation of 1.400.001, even if a criminal conviction is not obtained.  
**D.** Incorrect. An unintentional mistake is not generally a violation of 1.400.001, though a pattern of repeated material errors could potentially rise to that level.  
*(See page 15 of the course material.)*
CHAPTER 2: ETHICS AND PROHIBITED PRACTICES

Chapter Objective

After completing this chapter, you should be able to:

- Identify certain Washington regulations and policies.

I. IMPORTANT UPDATES

2016 RULEMAKING

ESHB 2433

After holding a public rule-making hearing on July 29, 2016, the Board took the following action:

- Amended WAC 4-30-010 Definitions (for a full listing of the changes please visit http://www.cpaboard.wa.gov/resources/laws-and-rules)

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

- Amended WAC 4-30-058 Does the board authorize the use of any other titles or designations?

- Amended WAC 4-30-090 Must an out-of-state individual holding a license from another state apply and obtain a Washington state license to hold out and practice in Washington state?

- Amended WAC 4-30-110 What are the allowable legal forms of organization and ownership requirements for a CPA firm?

- Amended WAC 4-30-112 Must a firm holding a license from another state apply and obtain a Washington state license to hold out and practice in Washington state?

- Amended WAC 4-30-114 How do I apply for and maintain a firm license?

- Amended WAC 4-30-130 What are the quality assurance review (QAR) requirements for licensed CPA firms?

- Amended WAC 4-30-142 What are the bases for the board to impose discipline?

The Board amended this rule:

- Due to the passage of Senate Bill ESHB 2433 on March 31, 2016

This amended ruling became effective September 9, 2016, and is reflected in this course.
Definitions

After holding a public rule-making hearing on July 29, 2016, the Board took the following action:

Amended WAC 4-30-010 Definitions

The Board amended this rule:

• Rule-making is needed to implement definitions of Fiduciary Duty and Breach of Fiduciary Duty; and

• To clarify a CPA’s responsibility to clients.

The changes took effect September 9, 2016 and are reflected in this course.

Discipline

After holding a public rule-making hearing on July 29, 2016, the Board took the following action:

Amended WAC 4-30-142 What are the bases for the board to impose discipline?

The Board amended this rule:

• To add language to 04-30-142 (5) (i) to include acting in a manner not in compliance with chapter 11.96A RCW under the description of discharging a trustee’s duties in a negligent manner or breaching one’s fiduciary duties.

The changes took effect September 9, 2016 and are reflected in this course.

Note

Because the following two amendments relate to situations required prior to being licensed as a CPA and those taking this course are already licensed, they are not discussed in detail in this course. You can find the current wording of these rules on the Board’s website at www.cpaboard.wa.gov.

CPA Exam

After holding a public rule-making hearing on April 19, 2016, the Board took the following action:

Amended WAC 4-30-062 How do I apply to take the CPA examination?

The Board amended this rule:

• To correct the error in one of the sentence structure for clarification; and

• Rule-making is needed to correct the error in one of the sentence structure for clarification.

The changes took effect May 23, 2016 and are reflected in this course.
Education

After holding a public rule-making hearing on April 19, 2016, the Board took the following action:

Amended WAC 4-30-060 What are the education requirements to qualify to apply for the CPA examination?

The Board amended this rule:

- To eliminate the following sentence in WAC 4-30-060(1)(c): “For purposes of meeting this subsection, individuals will be given 1.5 credits for each 1.0 graduate level credit of accounting courses taken.”

- This change will align the qualifications on a national level to ensure Washington State is substantially equivalent to the other state boards. Substantial equivalency is necessary to allow CPAs licensed in Washington State to be able to acquire licensure status in other US Jurisdictions.

The changes took effect May 23, 2016 and are reflected in this course.

II. WASHINGTON STATE BOARD OF ACCOUNTANCY

The Board regulates Certified Public Accountants (CPAs), CPA-Inactive certificate holders, CPA firms, and the practice of public accountancy in Washington state.

BOARD PURPOSE

The purpose of the Washington State Board of Accountancy is to promote the dependability of financial and other information used by providers of capital when assessing the status and performance of those seeking financial resources. To accomplish the Board’s purpose, the Agency is responsible for ensuring that credentialed persons (1) are initially qualified, (2) remain qualified, (3) perform competently, and (4) are held publicly accountable for the quality of their professional services.

The focus of the Public Accountancy Act and administrative provisions of the Act and board rules is: (a) to promote the reliability of information used for decision making, (b) to ensure that applicants for licensure are qualified, and (c) to ensure licensees and CPA-Inactive certificate holders maintain their competency, and perform competently and responsibly during all periods during which their regulated status is active. Accordingly, in the publics’ interest, the Act regulates CPE, the exercise of Due Professional Care (compliance with Professional Standards) and the use of the Titles CPA(s) or Certified Public Accountant(s) by licensed individuals and firms and individuals registered as CPA-Inactive. Therefore, it is critically important for individuals and firms, including sole proprietorships, to maintain a current understanding of the administrative provisions of the Act, e.g., required board notifications. Otherwise advisory notices from the Board might not be received and/or rule changes made by the Board might not be recognized. Such oversights can result in undesirable consequences.
### License Renewal

Every year, a number of CPAs forget to renew their license. The Board considers failure to renew the license a serious matter. Be sure to maintain a current mailing address and email address with the Board and renew your license on time!

For more information, visit [www.cpaboard.wa.gov](http://www.cpaboard.wa.gov).

### Note: Doing Business in Washington State

#### Office Located in Washington

To apply for a CPA firm license in Washington, you will need to:

- Register with Secure Access Washington
- Complete online application
- Pay all applicable fees
- Meet all Board requirements for licensure

#### Office Located Outside of Washington

To apply for a CPA firm license an owner or designee must qualify for practice privileges:

- Register with Secure Access Washington
- Complete online application
- Pay all applicable fees
- Meet all Board requirements for licensure
III. BOARD RULES

A. BOARD ADMINISTRATION

WAC 4-30-026

How can I contact the Board? The Board’s administrative office, executive director and staff are located in Olympia, Washington. You may utilize the following numbers or addresses to contact the Board:

711 Capitol Way South, Suite 400, Olympia, WA 98501 (physical address)
P.O. Box 9131, Olympia, WA 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)
www.cpaboard.wa.gov (website address).

WAC 4-30-028

What rules govern the proceedings before the Board? Except where they are inconsistent with the rules in this chapter and subject to additional rules that the Board may adopt from time to time, practice and procedure in and before the Board are governed by the uniform procedural rules codified in the Washington Administrative Code, chapter 10-08 WAC.

For certain types of decisions, the Board has adopted an appeal process authorized by RCW 34.05.482 through 34.05.494 which is called a brief adjudicative proceeding. Decisions to which this appeal process will be applied are:

(1) Staff denials of initial individual license applications, renewals, or applications for reinstatement;

(2) Staff denials of CPA-Inactive certificate renewals or applications for reinstatement;

(3) Staff denials of practice privilege reinstatements;

(4) Staff denials of initial resident nonlicensee firm owner registration applications, renewals, or applications or requests for reinstatement;

(5) Staff denials of initial firm license applications, renewals, and amendments;

(6) Staff denials of exam applications; and

(7) A proposed suspension as a result of a determination by a lending agency of nonpayment or default on a federally or state-guaranteed student loan or service conditional scholarship.

To appeal a decision, you must submit your request for a brief adjudicative proceeding, in writing, to the Board within thirty days after the decision by board staff is posted in the U.S. mail. The board chair or the board vice-chair, if the board chair is unavailable, will appoint one member of the board as the presiding officer for brief adjudicative proceedings. The presiding officer renders a decision either...
upholding or overturning the denial. This decision, called an order, will be provided to you at the last address you furnished to the board.

If you are dissatisfied with the order in the brief adjudicative proceeding, you may appeal to the Board’s vice-chair, or designee. This appeal process is called an administrative review. Your appeal must be received by the Board, **orally or in writing, within twenty-one days** after the brief adjudicative proceedings order is posted in the U.S. mail. The vice-chair, or designee, considers your appeal and either upholds or overturns the brief adjudicative proceeding order. The vice-chair’s, or designee’s, decision, also called an order, will be provided to you at the last address you furnished to the board.

**WAC 4-30-032**

**Do I need to notify the Board if I change my address?** Yes. All individuals licensed in this state, CPA-Inactive certificate holders, CPA firms licensed in this state, individuals registered with the Board as resident nonlicensee firm owners, and applicants must notify the Board **in writing** within thirty days of any change of address. Firms licensed in this state must notify the Board of any opening, closing, or relocation of the main office or a branch office in this state.

**Changing Contact Information**

The requirement to notify the Board of a change of address refers to both an individual’s or firm’s physical address and email address. In an effort to reduce their carbon footprint, the Washington State Board of Accountancy uses email to send most notifications.

**WAC 4-30-034**

**Must I respond to inquiries from the board?** Yes. All licensees, including out-of-state individuals exercising practice privileges in this state under RCW 18.04.350(2) and out-of-state firms permitted to offer or render certain professional services in this state under the conditions prescribed in RCW 18.04.195 (1)(a) and (b), CPA-Inactive certificate holders, nonlicensee firm owners, and applicants must respond, **in writing**, to board communications requesting a response. Your response must be made within **twenty days of the date** the board’s communication is posted in the U.S. mail. Communications from the board to you are directed to the last address you furnished the board.

**Case Study: Failure to Respond to a Board Communication**

A complaint was filed against Brown. The Board notified Brown of the complaint and requested that Brown respond within 20 days. Brown did not respond within 20 days. **LIKELY BOARD ACTION:** Violation of WAC 4-30-034.
WAC 4-30-036

What enforcement actions must be reported to the Board?

(1) A licensee, CPA-Inactive certificate holder, or nonlicensee firm owner must notify the Board of the following matters in the manner prescribed by the Board, within thirty days of the issuance of:

   (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; or

   (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 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.

(2) Licensed CPA firms with more than one licensed owner are not required to report on action taken against owners, principals, partners, or employees.

(3) 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 within thirty days of receiving notice that an investigation has begun or a sanction was imposed.

B. ETHICS AND PROHIBITED PRACTICES

AICPA and State Law Comparison - Principles of Conduct

Both AICPA and Washington rules require CPAs to act with integrity, objectivity, and due professional care. Washington also requires CPAs to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism. While one could argue the additional Washington requirements are included in the definition of integrity, the fact that the Board chose to separately identify them shows the commitment to professionalism that the Board demands. The additional requirements also indicate the Board’s belief that CPAs have a duty to the public in addition to their duty to clients and employers.

WAC 4-30-040

What are the requirements concerning integrity and objectivity? When offering or performing services, licensees, CPA-Inactive certificate holders, nonlicensee firm owners, and employees of such persons 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 the professional standards listed in WAC 4-30-048 differ from or conflict with specific board rules, board rules prevail.

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**Case Study: Integrity and Objectivity**

Brown CPA provided tax services to Mr. and Mrs. Taylor for the last 14 years of their marriage. Brown CPA had knowledge of financial information that related to both husband and wife based on Brown’s prior services to Mr. and Mrs. Taylor.

When the couple decided to divorce, Brown CPA accepted an engagement from Mr. Taylor to assist him with consultation and tax matters related to the divorce proceedings.

Brown CPA prepared the final joint tax return for Mr. and Mrs. Taylor after the date of the divorce.

While Brown CPA represented the couple, Brown CPA was also representing Mr. Taylor with services that were related to the divorce proceedings. These separate services were adversarial to Mrs. Taylor.

Brown CPA did not request permission of Mrs. Taylor to represent only Mr. Taylor. Brown CPA accepted the engagement with Mr. Taylor even though it was adverse to Mrs. Taylor.

Brown CPA violated the rule on integrity and objectivity by accepting a separate engagement from Mr. Taylor which was adversarial to his engagement to Mr. and Mrs. Taylor.

**LIKELY BOARD ACTION:** Violation of WAC 4-30-040 Integrity and Objectivity.

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**WAC 4-30-042**

**When is independence required?** When performing professional services for which a report expressing assurance is prescribed by professional standards, licensees, as defined in WAC 4-30-010, CPA-Inactive certificate holders, nonlicensee firm owners, and employees of such persons must evaluate and maintain their independence so that opinions, reports, conclusions, and judgments will be impartial and viewed as impartial by parties expected to rely on any report expressing assurance by such persons. Such persons are required:

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 attestation engagements where such persons have a relationship that could lead a reasonable and foreseeable user to conclude that such persons are not independent.

Independence is not required when performing a compilation engagement provided the report discloses a lack of independence.

### AICPA and State Law Comparison - Independence

Washington's independence requirements are more restrictive than the AICPA Code of Professional Conduct.

Under board rules WAC 4-30-010(26) and WAC 4-30-042, independence means the absence of relationships that impair a licensee's impartiality and objectivity in rendering attest services. This differs from AICPA and GAO guidance in that this is not a rule based issue. The 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.

After consideration of AICPA and GAO guidance, the CPA must decline attest engagements where the CPA or firm decides that the individual members of the firm or the firm have any relationship that could lead a reasonable and foreseeable user to conclude that the individual CPA or the CPA firm’s opinions, report, conclusions, and judgments might be viewed as biased by parties expected to rely on any attestation report.

### WAC 4-30-044

**What restrictions govern commissions, referral, and contingent fees?** For the purposes of this section, the term “licensed firm” includes any affiliated entity(ies) and the term “firm owner” includes the owner(s) of any affiliated entity(ies).

(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 attestation services; and

   (b) During the period covered by any historical financial statements for which an attestation 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 the attestation services; and

(b) During the period covered by any historical financial statements involved in the attestation services.

(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.

(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 certificate holder’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.

(6) Nothing in this rule shall be interpreted to preclude licensees, as defined in WAC 4-30-010, CPA-Inactive certificate holders, or nonlicensee firm owners, from purchasing, selling, or merging all or a portion of a licensed firm or affiliated entity or to require disclosure to clients of terms or payments made or received pursuant to the purchase, sale, or merger.
AICPA and State Law Comparisons

COMMISSIONS

Both AICPA and Washington rules permit commission arrangements under certain circumstances. Both prohibit receipt of commissions from attest clients. Both require that commission arrangements be disclosed to clients. Washington has the following additional disclosure requirements:

- Disclose the arrangement in writing and in advance of client acceptance
- Disclose the method of calculating the fee
- Specify the CPA’s role as the client’s advisor
- Obtain the client’s consent to the fee arrangement in writing

These rules apply to all affiliated entities defined in WAC 4-30-010(3).

REFERRAL FEES

Both the AICPA and Washington rules require the disclosure of the payment or receipt of referral fees. Washington has additional disclosure requirements as discussed previously under commissions.

CONTINGENT FEES

As with commissions and referral fees, contingent fee arrangements must be disclosed in the same manner as listed previously for commissions.

What Is Meant By “During the Period?”

The period of prohibition begins at the time the licensee has accepted an engagement to perform attest or compilation services, includes the period covered by the engagement, and extends through the report date on the engagement.

If the licensee is engaged to do attest or compilation services for a subsequent period, there would be no period of time that the licensee is not covered by this prohibition. The prohibition could extend until it is implicit that the firm is no longer providing attest or compilation services for the client, especially if the firm has been providing such services on an on-going periodic basis. Issuing a letter of resignation from providing the services would be considered reasonable documentation of the termination.
What are the requirements concerning competence? Licensees, CPA-Inactive certificate holders, nonlicensee firm owners, and employees of such persons must not undertake to perform any professional service unless such persons can reasonably expect to complete the service with professional competence.

Case Study: Competence

Brown prepared Client’s tax returns and calculated that Client would receive a $6,000 tax refund from Arizona, owe $7,000 in taxes to Washington, and owe $6,500 in taxes to the Internal Revenue Service. Client took tax information to another Certified Public Accountant who completed the returns and made the following determination: Client would receive a $10,000 refund from Arizona, owe $6,000 to Washington, and owe $5,500 to the IRS.

Brown agreed that he did not prepare Client’s tax return correctly.

Likely Board Action: Violation of WAC 4-30-046.

Compliance is required with which rules, regulations and professional standards? Licensees, including out-of-state individuals exercising practice privileges in this state under RCW 18.04.350(2) and out-of-state firms permitted to offer or render certain professional services in this state under the conditions prescribed in RCW 18.04.195(1)(b), CPA-Inactive certificate holders, CPA firms, nonlicensee firm owners, and employees of such persons must comply with rules, regulations, and professional standards promulgated by the appropriate bodies for each service undertaken. 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.

Authoritative bodies include, but are not limited to, the Securities and Exchange Commission (SEC); the Public Company Accounting Oversight Board (PCAOB); the Financial Accounting Standards Board (FASB); the Governmental Accounting Standards Board (GASB); the Cost Accounting Standards Board (CASB); the Federal Accounting Standards Advisory Board (FASAB); the U.S. Governmental Accountability Office (GAO); the Federal Office of Management and Budget (OMB); the Internal Revenue Service (IRS); the American Institute of Certified Public Accountants (AICPA), and federal, state, and local audit, regulatory and tax agencies.

Such standards include:

1. Statements on Auditing Standards and related Auditing Interpretations issued by the AICPA;
2. Statements on Standards for Accounting and Review Services and related Accounting and Review Services Interpretations issued by the AICPA;
(3) Statements on Governmental Accounting and Financial Reporting Standards issued by GASB;

(4) Statements on Standards for Attestation Engagements and related Attestation Engagements Interpretations issued by AICPA;

(5) 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;

(6) Statement on Standards for Consulting Services issued by the AICPA;

(7) Statements on Quality Control Standards issued by the AICPA;

(8) Statements on Standards for Tax Services and Interpretation of Statements on Standards for Tax Services issued by the AICPA;

(9) Statements on Responsibilities in Personal Financial Planning Practice issued by the AICPA;

(10) Statements on Standards for Litigation Services issued by the AICPA;

(11) Professional Code of Conduct issued by the AICPA including interpretations and ethics rulings;

(12) Governmental Auditing Standards issued by the U.S. Governmental Accountability Office;

(13) AICPA Industry Audit and Accounting Guides;

(14) SEC Rules, Concept Releases, Interpretative Releases, and Policy Statements;

(15) Standards issued by the PCAOB; and

(16) IRS Circular 230;

(17) Any additional national or international standards recognized by the AICPA, PCAOB, SEC, and/or GAO.

If the professional services are governed by standards not included in subsections (1) through (17) of this section, 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 standards listed in subsections (1) through (17) of this section;

(b) Determine and document what standards are applicable; and

(c) Demonstrate compliance with the applicable standards.
Observation: IRS Circular 230 Conflicts of Interest Rules

Under Circular 230 section 10.29, a practitioner may not represent a client before the IRS if a conflict of interest exists. A conflict of interest exists if:

- Representation is directly adverse to another client.
- There is significant risk that the practitioner’s responsibilities to another client (or former client) will materially limit the practitioner’s representation.

Notwithstanding a conflict of interest, the practitioner may represent a client if all of the following conditions are met:

- There is a reasonable belief that the practitioner is able to provide competent and diligent representation,
- Representation is not prohibited by another provision of law,
- The practitioner obtains a written informed waiver of the conflict by each affected client within 30 days of the conflict becoming known, and
- The written waiver is retained for 36 months.

Case Study: Professional Standards

Able Accountants, CPAs (Firm) audited XYZ Company in 2014 and 2015. XYZ Company provided investment and money management services to clients, many of which were union pension trusts and health and welfare plans. XYZ Company managed a total portfolio of about one billion dollars.

A division of Firm prepared a valuation report of XYZ Company that valued XYZ Company at just under $5 million dollars. XYZ Company’s growth in fee income was fueled by a collateralized note program that was critical to Firm’s valuation. The collateralized note program included loans made by XYZ Company to its affiliate ABC Company. By 2015, the collateralized note program with its affiliate ABC Company had accounted for 25% of the total assets managed by XYZ Company and 45% of the fees charged by XYZ Company.

ABC Company suffered losses during the years 2014 through 2016 and had a stockholders’ deficit of $109 million at the end of September 2016. ABC Company filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. The 2016 audit report for ABC Company was prepared by another firm. The audit report expressed substantial doubt about ABC Company’s ability to continue as a going concern.
WAC 4-30-050

What are the requirements concerning records and clients confidential information?

(1) **Client:** The term “client” as used throughout WAC 4-30-050 and WAC 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.

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.

(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;
(c) 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

(d) 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.

Observation

A 2013 amendment to WAC 4-30-50 added two paragraphs to subsection (3) above. The purpose of the amendment was to clarify that licensees who prepare federal income tax returns in accordance with IRS rules do not violate client confidentiality.

WAC 4-30-051

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.
(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.

(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, CPAinactive 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.

(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.

(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.

Records and You: “Staying Out of Trouble”

Effectively managing your records goes a long way toward managing your professional risk. As a certified public accountant, considerable onus is placed in your custody of client information and distinguishing among what records must be provided, when and how. Also, the cost of providing these records is an important consideration. In the Board’s Enforcement division, the question of client records is often a source of concern. Board rule, or more specifically, Title 4 WAC 4-30-051, is the clarifying rule of guidance.

The What

Records are not all the same. Board rule breaks records into four separate categories: client provided records, licensee prepared records, supporting records, and working papers. Rule states that client provided, licensee prepared, and supporting records must be provided to the client upon request.
Records and You: “Staying Out of Trouble” (continued)

What are these different types?

- Client provided records are, quite simply, accounting or other records that have been provided to a licensee by the client.
- Licensee prepared records are those created by the licensee, and are generally the purpose of the engagement: tax returns, general ledgers, subsidiary journals, and supporting schedules.
- Supporting records are typically not reflected in the client’s books and records, and not otherwise available to the client. Adjusting, closing, combining, or consolidating journal entries are just a few examples of documents that support an engagement.
- Working papers would usually hold little interest to a client. Audit programs, analytical review schedules, statistical sampling results, and analyses guide a licensee’s work, but are not work product, or supportive of such.

The When

The urgency of conveying records to a client upon request varies according to format, and some of these records are not as readily deliverable as others. “Soon as practical” is the guidance in the rule, but barring extenuating circumstances, 45 days from date of request is the deadline.

If a licensee has previously provided a client with a record, there is no obligation to do so again, barring some unusual circumstance. While such consideration may help in client relations, a licensee is not required to deliver records that have already been delivered, but that is a decision up to the CPA.

The How

Some client records may be in a format that is unusable by the client. Licensees may use software or hardware that makes a record unusable to someone without the same tools. WAC 4-30-051 requires that the requested records be provided in any format usable by the client. Today’s world empowers people with more tools than ever before, but what may be usable by one person may not be the same for another. Discussing the deliverable format with a client can help prevent any potential hiccup, or redundant work, in the future.

The Cost

Many licensees may not keep client records in a manner that would facilitate easy delivery upon request. In such instances, where the retrieval and copying of records incurs time and expense by the licensee, WAC 4-30-051 allows the licensee to charge a reasonable fee. Licensees can require that such fees be paid prior to the production of records.

The Confusion

Each scenario may require a different approach. Clients are as diverse as the records they provide and need. If there is ever concern about client records, consult WAC 4-30-051. If that does not answer your question, contact the Board staff.
AICPA and State Law Comparison - Client Records

An auditor’s working papers may include information that would cause the client’s accounting records to otherwise be incomplete. Examples include adjusting entries and consolidating entries. Unlike the AICPA, Washington does not permit the withholding of this information pending payment of professional fees. Unpaid professional fees are a civil matter that does not relieve a licensee of their professional responsibility.

Case Study: Client Records and Working Papers Requested Records

In 2015, Green decided to close her public accounting office and accept a position in private industry. Green notified clients that she was closing her office and referred clients to another Certified Public Accountant.

Client “A” received the notification from Green. In 2016, Client “A” needed a copy of her depreciation schedule to complete 2015 tax returns. Client “A” left telephone messages for Green. Green did not return Client’s calls and did not provide Client with a copy of the requested depreciation schedule.

Green was required to retain client working papers and provide Client “A” with a copy of the depreciation schedule.

LIKELY BOARD ACTION: Violation of WAC 4-30-051.

WAC 4-30-052

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.
Case Study: Acts Discreditable

White, CPA prepared Smith’s tax return. White offered client “Extended Tax Service” (ETS) for a fee. White explained to Smith that ETS is a guarantee to represent Smith at no additional cost if a taxing authority selected Smith’s tax return for audit.

White required that clients who purchased ETS must be continuing clients to receive the benefits of ETS. White published the terms of ETS once a year in his December newsletter.

The continuing client requirement was not printed on Smith’s invoice. White did not give Smith a verbal explanation of the continuing client requirement. Smith did not read White’s December newsletter.

Smith paid White for ETS when she picked up her tax return. Smith knew at the time that she paid for ETS that she would not use White’s services again.

Smith’s tax return was selected for audit 18 months later. White refused to represent Smith, because Smith was not a continuing client.

White was obligated under the terms stated on Smith’s invoice to provide ETS.

POSSIBLE BOARD ACTION: Violation of WAC 4-30-052 Acts Discreditable.

WAC 4-30-054

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

(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.
AICPA and Washington both prohibit advertising that is false, misleading or deceptive. Washington further specifies that the following are prohibited:

- Statements which fail to make full disclosure of relevant facts
- Statements which imply your professional services are of exceptional quality, which is not supported by verifiable facts

**Case Study: Advertising**


Stating that “AB&C LLC” was established in 1984 is a misrepresentation of fact.

**LIKELY BOARD ACTION:** Using the “established date” of 1984 is misleading and a violation of WAC 4-30-054.

**WAC 4-30-056**

**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 certificate holder may not use the title in association with a name that is not registered with the Board.
AICPA rules generally allow the use of firm names that are valid under local law. While the AICPA does not require the advance approval of fictitious names, Washington does. Washington requires board approval of any firm name that does not consist of one or more present or former owners.

Case Study: Firm Name

White registered his firm as “White CPA PC.” White did not use the registered name “White CPA PC” on letterhead, business cards or when answering the telephone. Instead, White used “Accounting Services” on letterhead, business cards and when answering the telephone.

**LIKELY BOARD ACTION:** Violation of WAC 4-30-056.

**WAC 4-30-058**

**Does the board authorize the use of any other titles or designations?** Yes. RCW 18.04.350(14), Practices not prohibited, authorizes the board to allow the use of other titles (designations) if the individual using the title or designation is authorized at the time of use by a nationally recognized entity sanctioning 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.

Recurring Enforcement Issues - Title Use/Unlicensed CPA Firms

Problems include sole proprietors failing to obtain firm licenses; firms dissolving or reorganizing and failing to advise the Board and obtain new firm licenses; retiring or lapsing individual licenses, but continuing to use the title; passing the CPA exam and using the title prior to obtaining a license; and use of the title or similar title (such as public accountant) without a license.

If you have an office in the state of Washington (whether as a sole proprietor or not) and use the title CPA in your name or offer attest or compilation services, you must first obtain a CPA firm license with the Board.

Practicing Public Accountancy Is a Privilege, Not a Right

The primary purpose of the Accountancy Act and Board regulations is to protect the public interest. The Board rules are important to the licensee in that the rules enhance and promote public confidence in the CPA profession. To this end, it is important to note that the Accountancy Act includes criminal provisions both to protect the public and to punish violators.

• RCW 18.04.360 permits the Board to enjoin a licensee from committing an act that the Board deems harmful to the public. The Board does not have to wait for the act to be committed, but may act first.

• RCW 18.04.370 provides criminal penalties for violations of the Accountancy Act. These penalties include steep fines, and up to two years in prison for certain violations.

CPAs occupy a position of public trust. The law provides two instances where a licensee’s practice rights may be suspended for violating this basic public trust.

• RCW 18.04.420 requires the Board to suspend the license or certificate of any person who has defaulted on a federal or state guaranteed student loan.

• RCH 18.04.430 requires the Board to suspend the certificate or license of a person who is not in compliance with a support order (e.g., one who has failed to pay child support).

The following Board rules and laws are not part of The Ethics and Prohibited Practices, but are so closely related that they warrant inclusion here.
C. WASHINGTON RESIDENT INDIVIDUAL LICENSING

WAC 4-30-082

How does a CPA-Inactive certificate holder apply for licensure? CPA-Inactive certificate holders are individuals who held a valid certificate on June 30, 2001, but did not hold a valid Washington state license to practice public accounting on that date. Individuals who did not hold a valid certificate on June 30, 2001 and current licensees are not eligible for CPA-Inactive certificate holder status.

(1) To qualify for licensure a CPA-Inactive certificate holder must meet the:
   
   (a) Good character requirements of RCW 18.04.105 (1)(a);
   
   (b) Experience requirements of WAC 4-30-070 within the eight-year period immediately preceding your application; and
   
   (c) CPE requirements of WAC 4-30-134(5).

(2) To apply for a license, you must also submit to the board a certification that you meet the requirements of subsection (1) of this section and:

   (a) Have not held out in public practice during the time in which you were a CPA-Inactive certificate holder; and

   (b) Other required documentation or information deemed necessary by the board.

(3) You must provide the required information, documents, and fees (if applicable) to the board either by making application through the board’s on-line application system or on a form provided upon request.

(4) You must submit all requested information, documents, and fees (if applicable) to the board before the application will be evaluated.

(5) Upon assessment of your qualifications and approval of your application, your license status will be posted in the board’s licensee data base and, therefore, made publicly available for confirmation. A hard copy of your credential can be provided upon request.

(6) Your CPE reporting period and your renewal cycle will remain the same.

(7) You may not use the title “CPA” or “Certified Public Accountant” until the date the approval of your license is posted in the board’s licensee data base and, therefore, made publicly available for confirmation.

Note

If you hold a CPA license, you cannot convert to a CPA-Inactive certificate holder. This is no longer an option.
WAC 4-30-088

What is the effect on a Washington individual licensee or CPA-inactive certificateholder in the armed forces, reserves, or National Guard if the individual receives orders to deploy for active military duty?

(1) **Definitions.** For purposes of this rule:

(a) “Active military duty” means:

   (i) Deployed upon order of the President of the United States, the U.S. Secretary of Defense or Homeland Security in the case of a member of the armed forces or armed force reserves; or

   (ii) Deployed upon order of the governor of this state in the case of the National Guard.

(b) “Armed forces” means the Army, Navy, Air Force, Marine Corps, and Coast Guard and reserves of each branch of the armed forces.

(c) “Active duty” means full-time employment in the armed forces of the United States. Such term does not include National Guard duty.

(d) “Military individual” means a living human being serving full time in the United States armed forces.

(e) “Military spouse” means the husband, wife, or registered domestic partner of a military individual.

(2) **Active military duty.**

(a) An individual fully employed on active duty in the armed forces of the United States applying for an initial license in this state shall receive priority processing of the application for initial licensing.

(b) A military applicant who obtains an initial license or a military individual holding a current license issued by this board, will be classified as “military” if the services provided to the armed forces include services within the definition of the practice of public accounting.

(c) An individual in the armed forces, reserves or National Guard and called to “active military duty” while holding an active license or CPA-Inactive certificate issued by this board may apply for a waiver of renewal fees and continuing professional education (CPE):

   (i) The request for waiver of renewal fees and continuing professional education may be made through the board’s online application and payment system or on a form provided by the board upon request;
(ii) The request for waiver must be supported by submitting documentation to substantiate the military individual’s “active military duty” status;

(iii) Upon approval the waiver will serve to classify the individual as “military inactive”;

(iv) The CPE reporting period and renewal year will not be affected by this reclassification of status;

(v) The waiver will continue to maintain an individual’s military inactive status without fee or CPE until the individual is released from active military duty or discharged from the armed forces, reserves, or National Guard;

(vi) The board must be notified within six months after the date of release from active military duty or discharge from the armed forces. The board must be notified within six months of the date of release from a treatment facility if the individual is or has been in a treatment facility and a discharge was the result of injury or other reasons.

(3) **Return to previously held status after release from “active military duty” or discharge from the armed forces.**

(a) If a military individual desires to return to a previously held status after release from active military duty or discharge from the armed forces, all required information, documents, and fees must be submitted to the board before the application will be evaluated. An application for return to previously held status may be made through the board’s online application and payment system or on a form provided by the board upon request and must include the following:

(i) Documentation to substantiate:

- Release from “active military duty”; or
- Type of discharge from the armed forces.

(ii) Documentation to substantiate completion of the following qualified CPE:

- If the application is submitted in the last year of the previous CPE reporting period the individual must have completed four CPE credit hours in ethics and regulation in Washington state and receive a passing grade of ninety percent on the board prepared examination available on the board’s web site. The renewal fee is waived in this circumstance;
- If the application is submitted in the second year of the previous CPE reporting period the individual must have completed forty CPE credit hours including four CPE credit hours in ethics and regulation in Washington state and receive a passing grade of ninety percent on the board prepared examination available on the board’s web site;
• If the application is submitted in the first year of the previous CPE reporting period the individual must have completed eighty CPE credit hours including four CPE credit hours in ethics and regulation in Washington state and receive a passing grade of ninety percent on the board prepared examination available on the board’s web site.

(iii) A military individual may receive an expedited license while completing any specific requirements that are not related to CPE or other board rules.

(b) The previously held status will not become effective until the status has been posted to the board’s data base and, therefore, made available to the general public.

(4) **Military spouses.**

(a) A military spouse or state registered domestic partner of an individual in the military may receive an expedited license while completing any specific additional requirements that are not related to training or practice standards for the profession, provided the military spouse or state registered domestic partner:

(i) Holds an unrestricted, active license in another state that has substantially equivalent licensing standards for the same profession to those in Washington; and

(ii) Is not subject to any pending investigation, charges, or disciplinary action by the regulatory body of another state or jurisdiction of the United States.

(b) To receive expedited license treatment, the military spouse or state registered domestic partner of an individual in the military must provide all required information, documents, and fees to the board either by making application through the board’s online application and payment system or on a form provided by the board upon request before the application will be evaluated.

(c) The application for expedited licensing will not be processed until the applicant submits copies to the board of the military individual’s orders and official documents to establish the applicant’s relationship to the military individual, such as one or more following documents:

(i) The military issued identification card showing the individual’s military information and the applicant’s relationship to that individual;

(ii) A marriage license; or

(iii) Documentation verifying a state registered domestic partnership.

(d) A military spouse or state registered domestic partner may only use a restricted title and practice public accounting under another state’s license without an expedited license issued by this board for ninety days from the date the spouse entered this state for temporary residency during the military individual’s transfer to this state.
D. INDIVIDUAL LICENSING BY INTERSTATE RECIPROCITY

WAC 4-30-090

Must an out-of-state individual holding a license from another state apply and obtain a Washington state license to hold out and practice in Washington state? No. Out-of-state individuals holding valid licenses to practice public accounting issued by a substantially equivalent state, may hold out and practice within Washington state and/or provide public accounting services in person, by mail, telephone, or electronic means to clients residing in Washington state without notice or payment of a fee. An individual who qualifies for practice privileges under RCW 18.04.350(2), and who performs any attest service described in RCW 18.04.010(1) may only do so through a firm that has obtained a license under RCW 18.04.195 and 18.04.215 or that meets the requirements for an exception from the firm licensure requirements under RCW 18.04.195 (1)(a)(iii)(A) through (D) or (b).

As a condition of this privilege, the out-of-state individual is deemed to have consented to:

(1) The personal and subject matter jurisdiction and disciplinary authority of this state's board;

(2) Comply with the Public Accountancy Act of this state, chapter 18.04 RCW, and this board’s rules contained in Title 4 WAC;

(3) The appointment of the state board which issued the certificate or license as their agent upon whom process may be served in any action or proceeding by this state’s board against the certificate holder or licensee;

(4) Not render any professional services in this state unless the out-of-state individual is licensed to render such services in the state of licensure upon which the privilege is contingent;

(5) Cease offering or performing professional services in this state, individually and/or on behalf of a firm, if the license from the state of the out-of-state individual’s principal place of business is no longer valid; and

(6) Cease offering or performing specific professional services in this state, individually and/or on behalf of a firm, if the license from the state of the out-of-state individual’s principal place of business is restricted from offering or performing such specific professional services.

E. CPA FIRM ORGANIZATION AND OWNERSHIP

WAC 4-30-110

What are the allowable legal forms of organization and ownership requirements for a CPA firm?

(1) Permitted forms of organization. A CPA firm may be organized as:

   (a) A proprietorship;

   (b) A partnership;

   (c) A professional corporation (PC) or professional service corporation (PS);
(d) A limited liability company (LLC);
(e) A limited liability partnership (LLP); or
(f) Any other form of legal entity authorized by Washington state statute for use by a CPA firm.

(2) **What happens when a CPA firm alters its legal form?** A mere change in the legal form of an existing firm constitutes a new firm for licensing purposes. Accordingly, the new entity must first obtain a CPA firm license from the board and then dissolve the former firm unless the owners desire to maintain more than one licensed firm. Affiliated entities using a restricted title or offering or performing restricted services are subject to board rules.

(3) **What are the ownership requirements for a CPA firm?**

(a) All owners of a licensed CPA firm are required to:

   (i) Fully comply with the provisions of chapter 18.04 RCW; and

   (ii) Be subject to discipline by the board for violations of chapter 18.04 RCW and this board’s rules contained in Title 4 WAC;

(b) A simple majority of the ownership of the licensed firm in terms of financial interests and voting rights of all partners, owners, or shareholders must be:

   (i) Licensees in this state or holders of a valid license to practice public accountancy issued by another state;

   (ii) Entitled to practice public accounting in Washington state; and

   (iii) Principally employed by the firm or actively engaged in its business.

(c) At least one general partner of a partnership, one shareholder of a corporation, and one member of a limited liability company must be a licensee.

(d) Each CPA proprietor, partner, shareholder or member who is either a resident or is entering the state and practicing public accountancy in this state must hold a valid Washington state license or practice privileges.

(e) A principal owner and any individual having authority over issuing reports must be a licensee under the act or holder of a valid license to practice public accountancy issued by another state and must be entitled to practice public accounting in this state.

(f) A nonresident CPA owner must be licensed to practice public accountancy in at least one state.

(g) A nonlicensee owner must:

   (i) Be an individual;
(ii) Meet the good character requirements of RCW 18.04.105 (1)(a);

(iii) Comply with the act and board rules; and

(iv) Be an active individual participant in the licensed firm or affiliated entities as these terms are defined in WAC 4-30-010; and

(h) A resident nonlicensee firm owner must meet the requirements of WAC 4-30-116 and register with the board concurrent with submission of the firm license application, or submission of an amendment to the firm license status, to the board.

(4) **What are the requirements for the firm’s main office and a branch office?** A firm’s main office located in this state must be under the direct supervision of a resident licensee.

A branch office is an office of a licensed CPA firm which is physically separated from the main office. A branch office operates under the license of the main office.

**F. FIRM LICENSING REQUIREMENTS**

**WAC 4-30-112**

Must a firm holding a license from another state apply and obtain a Washington state license to hold out and practice in Washington state?

(1) A firm license must be obtained from the board if any of the following criteria apply:

(a) The firm has an office in this state and performs attest or compilation services for clients in this state; or

(b) The firm has an office in this state and, by any means, represents the firm to the public that the firm is a firm of certified public accountants.

(2) A firm license is not required for a firm that does not have an office in this state but offers or renders attest services described in RCW 18.04.025(1), and meets the requirements listed in RCW 18.04.195 (1)(a)(iii)(A) through (D).

(3) A firm license is not required to perform other professional services in this state, including compilation, review and other services for which reporting requirements are provided in professional standards, if the firm complies with the following:

(a) The firm performs such services through individuals with practice privileges under RCW 18.04.350(2) and WAC 4-30-090 or reciprocal license under RCW 18.04.180 and 18.04.183 and board rules;

(b) The firm is licensed to perform such services in the state in which the individuals with practice privileges have their principal place of business; and

(c) The firm meets the board’s quality assurance program requirements, when applicable.
(4) As a condition of this privilege, any nonresident firm meeting the requirement of subsection (2) or (3) of this section is deemed to have consented to:

(a) The personal and subject matter jurisdiction and disciplinary authority of this state’s board;

(b) Comply with the Public Accountancy Act of this state, chapter 18.04 RCW, and this board’s rules contained in Title 4 WAC;

(c) Cease offering or rendering professional services in this state through a specific individual or individuals if the license(s) of the individual(s) through whom the services are offered or rendered becomes invalid;

(d) Cease offering or rendering specific professional services in this state through an individual or individuals if the license(s) from the state(s) of the principal place of business of such individual(s) is restricted from offering or performing such specific professional services;

(e) The appointment of the state board which issued the firm license as their agent upon whom process may be served in any action or proceeding by this state’s board against firm licensee;

(f) Not render those services described in subsection (1)(c) of this section for a client with a home office in this state unless the firm that has obtained a license from this state (RCW 18.04.195 and 18.04.295) and this section; and

(g) Not render any professional services in this state through out-of-state individual(s) who are not licensed to render such services by the state(s) in which the principal place of business of such individual(s) is (are) located.

WAC 4-30-114

How do I apply for and maintain a firm license?

(1) How does a firm apply for an initial firm license? To apply for an initial firm license an owner, or designee, or, in the case of an out-of-state firm, that does not meet the requirements to operate under firm mobility per RCW 18.04.195 (1)(a)(iii)(A) through (D), and is required to be licensed in this state, an individual qualified for practice privileges in this state under RCW 18.04.350(2) who has been authorized by the applicant firm to make the application must submit the following information to the board:

(a) The firm name;

(b) Address and telephone number of the main office and any branch offices of the firm;

(c) Name of the managing licensee of the main office located and maintained in this state;

(d) Resident licensee owners’ names;
(e) Name(s) of all resident nonlicensee owners; and

(f) Type of legal organization under which the firm operates.

The required information must be submitted to the board either by making application through the board’s online application system or on a form provided by the board upon request. All requested information, documents and fees must be submitted to the board before the application will be evaluated.

Upon approval of the firm’s application the firm’s licensed status will be posted in the board’s licensee data base and, therefore, made publicly available for confirmation. A hard copy of the firm license can be provided upon request.

The initial CPA firm license will expire on June 30th of the third calendar year following initial licensure.

(2) How do I renew a CPA firm license? To renew a CPA firm license an owner or designee or, in the case of an out-of-state firm that does not meet the requirements to operate under firm mobility per RCW 18.04.195 (1)(a)(iii)(A) through (D), an individual qualified for practice privileges in this state under RCW 18.04.350(2) who has been authorized by the applicant firm to make the application, must submit the information described in subsection (1) of this section that is current at the date the renewal application is submitted to the board. A renewal application is not complete and cannot be processed until all required information, requested documents, and all fees are submitted to the board.

An individual authorized by the firm must provide the required information to the board either by making application through the board’s online application system or on a form provided by the board upon request. All requested information, documents and fees must be submitted to the board before the application will be evaluated.

On the date the renewal application is approved, the firm’s license will be included in the board’s licensee data base and, therefore, made publicly available for confirmation. Confirmation of the renewed status can be provided upon request.

The CPA firm license will expire on June 30th of the third calendar year following the calendar year of renewal.

(3) When and how must the firm notify the board of changes in the licensed firm? An individual authorized by the firm must provide the board written notification and other documentation deemed necessary by the board within ninety days of any or all of the following occurrences:

(a) Dissolution of the firm;

(b) The occurrence of any event that would cause the firm to be in violation of RCW 18.04.195 or this section, including the retirement, lapse, revocation or suspension of the license of a sole proprietor or sole owner of another legal form of organization, for example, a limited liability company (LLC) or professional service corporation (PS) owned by a single person, licensed by the board for the practice of public accounting, and holding out to the public for the practice of public accounting and/or offering or performing professional services restricted to licensees; or
(c) An event that requires an amendment to a firm license.

(4) **What events require a firm amendment?** An individual authorized by the firm must provide written notification to the board, by submitting the following information and the appropriate amendment fee, within ninety days of the following:

(a) Admission or withdrawal of a resident licensee owner;

(b) Any change in the name of the firm; or

(c) Change in the resident managing licensee of the firm’s main office in this state; or

(d) Change in the resident managing licensee of any branch office of the firm.

(5) **How long do I have to correct noncompliance with licensure requirements due to a change in ownership or an owner’s credentials?** The board must be notified in writing within ninety days of the first date the firm is not in compliance with the firm’s licensure requirements due to changes in firm ownership and propose a time period in which the firm will achieve compliance. The board may grant a reasonable period of time for a firm to become compliant. The board may revoke, suspend, or impose conditions on the firm’s license for failure to bring the firm into compliance within the approved time period.

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<tr>
<td>Foreign based auditing firms registered with the PCAOB and auditing entities registered with the SEC must also meet the state of Washington’s firm licensing requirements and obtain a firm license issued by the Washington State Board of Accountancy if they audit an entity with a “home office” in the state of Washington or a subsidiary of a registered entity with an office in the state of Washington if the audit is required for registration with another regulatory agency in the state of Washington.</td>
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**WAC 4-30-116**

**How do I initially register to be a resident nonlicensee owner of a licensed firm and with which rules must a nonlicensee firm owner comply?**

To qualify as a nonlicensee owner of a licensed firm, you must:

(1) Be an individual;

(2) Meet the good character requirements of RCW 18.04.105 (1)(a);

(3) Be an active individual participant in the licensed firm or affiliated entities as these terms are defined in WAC 4-30-010; and

(4) If you are a resident of Washington state, you must:

(a) Provide all required information, documents, and fees to the board either by registering through the board’s on-line application system or on a form provided upon request; and
• Achieve and document a passing grade of ninety percent or better on a course covering the complete content of the AICPA Code of Professional Conduct.

• Submit your registration concurrent with or prior to submission of the firm license application or firm license amendment by the firm with which you are associated.

An initial registration is not complete and cannot be processed until all required information, documents, and fees are submitted to the board.

If you are a Washington state resident, you may not hold ownership interest in a CPA firm licensed in Washington state until you receive written notice from the board of your Washington state registration number. On the date the registration is approved, your registration number will be included in the board’s licensee data base and, therefore, made publicly available for confirmation. A hard copy of your registration can be provided upon request.

Your initial registration will expire on June 30 of the third calendar year following initial issuance of the registration.

If you withdraw as a nonlicensee owner of a CPA firm, the firm must notify the board. Your registration as a nonlicensee firm owner will lapse and be subject to reinstatement.

All nonlicensee firm owners are subject to discipline for violation of the act or board rules.

G. CONTINUING COMPETENCY

WAC 4-30-130

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

(1) Purpose. The Washington state board of accountancy is charged with protection of the public interest and ensuring the dependability of information used for guidance in financial transactions or for accounting for or assessing the status or performance of commercial and noncommercial enterprises, whether public, private or governmental. The purpose of the QAR program is to monitor licensees’ compliance with audit, compilation, review, and other attestation standards. If the board becomes aware that a firm’s performance and/or reporting practices for audit, review, compilation, and other engagements covered by statements on standards for attestation engagements may not be in accordance with applicable professional standards, the board will take appropriate action to protect the public interest.

(2) Peer review. Generally, all firms licensed in Washington state offering and/or performing 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, are required to participate in a board-approved peer review program as a condition of renewing each CPA firm license under RCW 18.04.215 and WAC 4-30-114. However, certain exemptions are listed in subsection (11) of this section. Board-approved peer review programs include:

(a) The inspection processes of the Public Company Accounting Oversight Board (PCAOB);
(b) Peer review programs administered by the American Institute of CPAs (AICPA);
(c) Peer review programs administered by the Washington Society of CPAs (WSCPA);
and
(d) Other programs recognized and approved by the board.

(3) **Enrollment in peer review:** A licensed firm must enroll in a board-approved peer review program before issuing a report for each of the following types of service or any other service the board determines:

(a) Compilation on historical financial statements;
(b) Review on historical financial statements;
(c) Audit report on financial statements, performance audit reports, or examination reports on internal controls for nonpublic enterprises;
(d) Other professional services subject to Statements on Standards for Attestation Engagements.

The schedule for the firm's peer review shall be established according to the peer review program's standards. The board does not require any licensee to become a member of any organization administering a peer review program.

(4) **Participation in peer review.** Every firm that is required to participate in a peer review program shall have a peer review in accordance with the peer review program standards.

(a) It is the responsibility of the firm to anticipate its needs for review services in sufficient time to enable the reviewer to complete the review by the assigned review date.
(b) Any firm that is dropped or terminated by a peer review program for any reason shall have 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.
(c) In the event a firm is merged, otherwise combined, dissolved or separated, the peer review program shall determine which firm is considered the succeeding firm. The succeeding firm shall retain its peer review status and the review due date.
(d) A firm choosing to change to another peer review program may do so only if there is not an open active peer review and if the peer review is performed in accordance with the minimum standards for performing and reporting on peer reviews.

(5) **Reporting requirements.** Every firm must provide the following information, along with the appropriate fees, with every application for renewal of a firm license by April 30th of the renewal year:

(a) Certify whether the firm does or does not perform attest services or compilation services as defined by WAC 4-30-010 (5), (12), or other professional services for which a report expressing assurance is prescribed by professional standards in Washington state;
(b) If the firm is subject to the peer review requirements, provide the name of the approved peer review program in which the firm is enrolled, and the period covered by the firm’s most recent peer review;

(c) Certify the result of the firm’s most recent peer review.

Failure to timely submit complete information and the related fee by the April 30th due date can result in the assessment of late fees. The board may waive late fees based on individual hardship including, but not limited to, financial hardship, critical illness, or active military deployment.

(6) A firm must notify the board within thirty days of the date the peer reviewer or a team captain advises the firm that a grade of pass with deficiencies or fail will be recommended. The notification must include the details of any required corrective action plan being recommended by the peer reviewer or team captain, and the planned date (or time period within which) the firm would intend to complete such remedial action or actions if the proposed corrective action plan is approved by the appropriate peer review acceptance committee.

Notwithstanding any extensions of time by the peer review program administrator, failure by the firm to meet its planned schedule for completing its specific corrective action plan required by the peer review program and/or timely pay for the peer review services can result in board action.

(7) **Documents required.** A firm that has opted out of participating in the AICPA Facilitated State Board Access (FSBA) program shall provide to the board copies of the following documents related to the peer review report:

   (a) Peer review report issued;

   (b) Firm’s letter of response, if any;

   (c) Letter of acceptance from peer review program;

   (d) Recommended action letter from the peer review program, if any;

   (e) A letter from the firm to the board describing corrective actions taken by the firm that relate to recommendations of the peer review program;

   (f) Other information the firm deems important for the board’s understanding of the information submitted; and

   (g) Other information the board deems important for the understanding of the information submitted.

(8) **Document retention.** RCW 18.04.390(4) and WAC 4-30-051(10) require a firm to retain audit and review records and documentation for a period of seven years after the firm concludes an audit or review of a client’s financial statements.

(9) **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.
(10) **Verification.** The board may verify the certifications of peer review reports that firms provide.

(11) **Exemption from peer review.**

(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)(a)(iii)(A) through (D) or (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 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 (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, any such engagements performed 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.

(12) **Quality assurance oversight.**

(a) The board will:

(i) 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;

(ii) Consider reports from the compliance assurance oversight committee;

(iii) Direct the evaluation of peer review reports and related documents submitted by firms;

(iv) Determine the appropriate action for firms that have unresolved matters relating to the peer review process or that have not complied with, or acted in disregard of the peer review requirements;

(v) Determine appropriate action for firms when issues with a peer review report may warrant further action; and
(vi) Take appropriate actions the board, in its discretion, deems appropriate to carry out the functions of the quality assurance review program and achieve the purpose of the peer review requirement.

(b) 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.

(i) The compliance assurance oversight committee’s oversight procedures may consist of, but are not limited to:

   (A) Attending the peer review program’s report acceptance body (RAB) meetings during consideration of peer review documents;

   (B) Observing the peer review program administrator’s internal review of program and quality control compliance;

   (C) Observing the peer review program’s review of the administrator’s process.

(ii) The compliance oversight assurance committee shall report to the board any modifications to approved peer review programs and shall make recommendations regarding the continued approval of peer review programs.

(13) **Remedies.** The board will take appropriate action to protect the public’s interest if the board determines through the peer review process or otherwise that a firm’s performance and/or reporting practices are not or may not be in accordance with applicable professional standards, the firm does not comply with peer review program requirements, or the firm does not comply with all or some of the reporting, remedial action, and/or fee payment requirements of subsection (5) of this section. The board’s actions may include, but are 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 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 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;
(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 nonconforming 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.

(f) Absent an investigation the specific rating of a single peer review report is not a sufficient basis to warrant disciplinary action.

(14) 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.

WAC 4-30-134

What are the continuing professional education (CPE) requirements for individuals?

(1) Qualifying continuing professional education (CPE) must:

   (a) Contribute to the professional competency in the individual’s area(s) of professional practice or relative to the individual’s current work place job functions;

   (b) Maintain knowledge of current ethical and other regulatory requirements; and

   (c) Be completed by individuals during any board specified CPE reporting period. A 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 31st of the subsequent third calendar year; for example, if your license was issued any time during calendar year one (2013), the CPE reporting period ends on December 31st of calendar year three (2015).

(2) General CPE requirements for renewal of valid credentials:

   (a) A licensee must complete a total of 120 CPE hours, including 4 CPE credit hours in ethics meeting the requirements of subsection (6) of this section. The total 120 CPE hours requirement is limited to no more than 24 CPE credit hours in nontechnical subject areas.

   (b) A CPA-Inactive certificate holder or a resident nonlicensee firm owner must complete 4 CPE credit hours in ethics meeting the requirements of subsection (6) of this section.

   (c) Individuals eligible to exercise practice privileges are exempt from the CPE requirements of this section.
(3) **Exceptions to the general CPE requirements:** CPE requirements for the initial CPE renewal period after conversion of a CPA-Inactive certificate to a Washington state license:

(a) 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 ethics meeting the requirements of subsection (6) of this section prior to December 31st of the calendar year following the calendar year in which your license was initially issued.

(b) 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 ethics meeting the requirements of subsection (6) of this section.

(c) If your license was issued during the third calendar year of your CPE reporting period, you must have completed 4 CPE credit hours in ethics meeting the requirements of subsection (6) of this section.

(4) For the following circumstances, you must have completed the requirements of subsection (2)(a) of this section within the thirty-six-month period immediately preceding the date an application is submitted to the board; however, the 4 CPE hours in ethics meeting the requirements of subsection (6) of this section must be completed within the six-month period immediately preceding the date your application and the CPE documentation is submitted to the board:

(a) You are applying to reactivate a license out of retirement; or

(b) You are a CPA-Inactive certificate holder applying for a license; or

(c) You want to return to your previously held status as a licensee; or

(d) You are applying for reinstatement of a lapsed, suspended, or revoked license.

(5) For the following circumstances, you must have completed the 4 CPE hours in ethics meeting the requirements of subsection (6) of this section within the six-month period immediately preceding the date your application and the CPE documentation is submitted to the board:

(a) You are applying to reactivate a CPA-Inactive certificate out of retirement; or

(b) You are applying to reinstate a lapsed, suspended, or revoked CPA-Inactive certificate, or registration as a resident nonlicensee firm owner.

(6) **CPE in ethics and regulation:**

(a) During each CPE reporting period after initial licensing all individuals licensed in this state, including nonresident and individuals from foreign countries who received initial Washington state licenses by reciprocity, CPA-Inactive certificate holders, and individuals initially recognized as resident nonlicensee firm owners are required to complete 4 qualifying CPE credit hours in approved ethics and regulations in Washington state.
(b) The content of the course must be specific to the laws and rules applicable to the regulatory framework in Washington state including the administrative requirements for an individual’s initial and continued use of restricted titles in this state.

(c) All CPE authors must submit course materials for this course to the executive director of the board for approval prior to delivery of the content for credit.

(d) The ethics and regulations course materials must cover all of the following topics, and instructors of approved courses must substantially address these topics in their presentations:

(i) General level information on the AICPA Code of Conduct.

(ii) General level information on the Public Accountancy Act, the board’s rules, policies, including recent or pending changes therein, and the rule-making process.

(iii) Emphasis must be placed on key differences between Washington state law (chapter 18.04 RCW), this board’s rules (Title 4 WAC), and the AICPA Code of Conduct.

(iv) Detailed information on the following:

(A) WAC 4-30-026 How can I contact the board?

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

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

(D) WAC 4-30-040 through 4-30-058 Ethics and prohibited practices, including related board policies, if any.

(E) WAC 4-30-130 Series—Continuing competency, including related board policies, if any.

(F) WAC 4-30-142 What are the bases for the board to impose discipline?

(G) Other topics or information as defined by board policy.

(e) The course must also include case study scenarios demonstrating how to comply with the relevant provisions of the AICPA Code of Conduct and the board’s statutory or regulatory framework when faced with ethical situations that might occur when offering or performing a specific type of professional service in the practice of public accounting or as a professionally regulated person not in the practice of public accounting.

(f) At least sixty percent of the course material content, presentation time, and commentary must include general level information on the Public Accountancy Act, the
board’s rules and policies, including recent or pending changes thereto, variances of key differences between Washington state law (chapter 18.04 RCW), the board’s rules (Title 4 WAC), and the AICPA Code of Conduct, and scenarios demonstrating the different compliance outcomes that might result because the board’s rules prevail when the board’s rules vary from the AICPA Code of Professional Conduct and/or related official AICPA interpretations.

(7) CPE extension requests:

(a) In order to renew your license, CPA-Inactive certificate, or registration as a resident nonlicensee firm owner, you must complete the required CPE by December 31st of the calendar year preceding the calendar year of your renewal unless you can demonstrate your failure to meet the CPE requirements was due to reasonable cause.

(b) 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 December 31st of the calendar year preceding the calendar year of your renewal. The request must include justification for the request and identify the specific CPE you plan to obtain to correct your CPE deficiency.

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

(8) Self-reported deficiencies:

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

   (i) Submit to the board, in writing, the specific CPE plan to obtain to correct the CPE deficiency on or before June 30th of the renewal year;

   (ii) Timely complete the CPE sufficient to correct the deficiency;

   (iii) Timely submit certificates of completion for the subject CPE taken to the board; and

   (iv) Pay the fee for reinstatement of a lapsed credential on or before June 30th of the renewal year.

(b) CPE deficiencies taken by June 30th of the renewal year under this subsection will be carried back to the reporting period ending on December 31st of the preceding calendar year and be subject to CPE audit in the next renewal period to ensure that inadvertent double counting does not occur.
Recurring Enforcement Issue -
Failure to Complete the Required CPE

Many licensed CPAs are failing to complete the required 120 hours of CPE, including the required 4 hours of ethics (WAC 4-30-134). Even CPA-Inactive certificate holders are often failing to complete the minimally required 4 hours of ethics (WAC 4-30-134).

Unique CPE Requirement During Your First CPE Reporting Period

Example:

Say your first credential was issued on January 3, 2013. Your 120 hours of CPE would be required to be completed by December 31st of 2015 for timely renewal without penalty by April 30, 2016.

However, if your first credential was issued December 15, 2013, your 120 hours of CPE would still be required to be completed by December 31st of 2015 for timely renewal without penalty by April 30, 2016.

Extensions to complete your required CPE may be granted upon written request. To be considered, requests for extension must be:

- Received by December 31st of the last calendar year of your CPE reporting period;
- For individual hardship, including financial hardship, critical illness, or active military employment;
- A specific plan to fulfill your requirement, including expected date to complete a list of specific courses.

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.

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

If you fail to timely complete the CPE requirement and do not file and receive a timely extension request, but 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 correct the deficiency by:

- Submitting your documents to agency personnel for evaluation; and
- Paying 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 carryback course(s) in that subsequent period.

See Board policy 2000-1 for:

- Guidance regarding the appropriate classification of a CPE course.
- Acceptable evidence supporting eligibility for CPE credit.
H. INVESTIGATIONS, DISCIPLINE, AND ENFORCEMENT

WAC 4-30-140

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

Authority:

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.

The board chair may delegate investigative authority and responsibility for initiating and directing investigations to a designee including the executive director of the board (RCW 18.04.045(7)).

Structure:

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

The general responsibilities when directing an investigation are:

1. Determine whether the complaint or other source of information is within the authority of the board;
2. Determine the most likely sanction the board might impose if the alleged violation is proven;
3. Determine the scope and type of evidence needed to reach a conclusion whether a violation occurred;
4. Monitor communications to the person(s) affected by the investigative process;
5. 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;
6. Upon completion of the investigation, evaluate the sufficiency of the evidence to support a conclusion as to whether a violation occurred;
7. 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.

Processes:

By board delegation, the executive director directs the complaint processes, investigative activities, and case resolution negotiations. The gathering of appropriate evidence should be assigned to staff or contract investigators who have no current or former close relationship to (or with) the complainant or the respondent.

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 will make a preliminary assessment.

If the executive director 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 in accordance with the agency’s approved retention schedule. A summary of dismissals will be reported regularly to the board.

- The situation or condition requires further evaluation, the executive director assigns the case to a staff or contract investigator.

Details of the additional evidence gathered and the resulting conclusion by the executive director will be documented. If the executive director determines that:

- Sufficient evidence does not exist to merit board action, the executive director may dismiss the case, but a record of the event will be documented and maintained in the board office in accordance with the agency’s approved record retention schedule. A summary of dismissals will be reported regularly to the board.

- 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 will discuss a resolution strategy and settlement parameters with a consulting board member. Once the executive director and consulting board member agree on those matters, the executive director and assigned staff or contract investigator will initiate a discussion for resolution with the respondent consistent with that agreed upon strategy and those settlement parameters.

The executive director may request guidance from a consulting board member and/or the assistance of the assigned prosecuting assistant attorney general at any time during the investigative and/or negotiation processes.

If the respondent is amenable to the suggested resolution and terminology of a negotiated 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 and assigned staff or contract investigator will discuss the counterproposal with a consulting board member. The executive director and consulting board member may agree to the counterproposal, offer a counter to the counterproposal, or reject the counterproposal.

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, the executive director will execute a statement of charges and refer the case to the assigned prosecuting assistant attorney general with the request that an administrative hearing be scheduled and the case prosecuted.

At the same time that the assigned prosecuting assistant attorney general is preparing the case for prosecution, the assigned prosecuting assistant attorney general, working with the executive director and
consulting board member, will continue to seek a negotiated settlement (consent agreement) in lieu of a board hearing. If the case goes to hearing before the board, the assigned 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.

Through this process, the consulting board member, the executive director and, when appropriate, the assigned prosecuting assistant attorney general 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 proposed negotiated settlement is forwarded to the board unless the respondent, the executive director, consulting board member and, when appropriate, the assigned prosecuting assistant attorney general concur that the proposal is an acceptable resolution to the matter.

If the participants in the negotiation concur with the negotiated resolution and terminology of the agreement, a proposed consent agreement is to be signed by the respondent, and signed by the assigned prosecuting assistant attorney general if the settlement was negotiated by the assigned prosecuting assistant attorney general, and forwarded to the board members, along with the executive director’s, consulting board member’s and, when appropriate, assigned prosecuting assistant attorney general’s recommendation to accept the proposal for consideration.

The board is not bound by this recommendation.

All proposed consent agreements must be approved by a majority vote of the board. Five “no” votes mean the proposed settlement has been rejected by the board. In such circumstances, the case will return to the executive director, consulting board member, and assigned prosecuting assistant attorney general who will determine whether the situation merits additional attempts to negotiate a settlement or to immediately schedule the matter for an administrative hearing before the board.

All fully executed consent agreements and board orders become effective the date the document is signed by the board’s presiding officer unless otherwise specified in the fully executed consent agreement or board order.

WAC 4-30-142

What are the bases for the board to impose discipline? RCW 18.04.055, 18.04.295, 18.04.305, and 18.04.350 authorize the board to revoke, suspend, refuse to issue, renew, or reinstate an individual or firm license, CPA-Inactive certificate, the right to exercise practice privileges in this state, or registration as a resident nonlicensee firm owner; 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 under RCW 18.04.295, 18.04.305, and 18.04.350. The board does not intend this listing to be all inclusive.

(1) Fraud or deceit in applying for the CPA examination, obtaining a license, registering as a resident nonlicensee firm owner, or in any filings with the board.

(2) Fraud or deceit in renewing or requesting reinstatement of a license, CPA-Inactive certificate, registration as a resident nonlicensee firm owner.

(3) Cheating on the CPA exam.

(4) Making a false or misleading statement in support of another person’s application or request to:

   (a) Take the national uniform CPA examination;

   (b) Obtain a license or registration required by the act or board;

   (c) Reinstate or modify the terms of a revoked or suspended license, certificate, or registration as a resident nonlicensee firm owner in this state;

   (d) Reinstate revoked or suspended practice privileges of an individual or firm licensed in another state.

(5) Dishonesty, fraud, or negligence while representing oneself as a licensee, CPA-Inactive certificate holder, or a resident nonlicensee firm owner including, but not limited to:

   (a) Practicing public accounting in Washington state prior to obtaining a license required per RCW 18.04.215, obtaining a firm license as required by RCW 18.04.195, or without qualifying to operate under firm mobility;

   (b) Offering or rendering public accounting services in this state by an out-of-state individual not qualified for practice privileges under RCW 18.04.350(2);

   (c) Offering or rendering public accounting services in this state by an out-of-state firm not qualified for practice privileges under firm mobility per RCW 18.04.195.

   (d) Making misleading, deceptive, or untrue representations;

   (e) Engaging in acts of fiscal dishonesty;

   (f) Purposefully, knowingly, or negligently failing to file a report or record, or filing a false report or record, required by local, state, or federal law;

   (g) Unlawfully selling unregistered securities;

   (h) Unlawfully acting as an unregistered securities salesperson or broker-dealer;
(i) Discharging a trustee’s duties in a negligent manner or breaching one’s fiduciary duties, acting in a manner not in compliance with chapter 11.96A RCW; or

(j) Withdrawing or liquidating, as fees earned, funds received by a licensee, CPA-Inactive certificate holder, or a resident nonlicensee firm owner 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.

(6) The following shall be prima facie evidence that a licensee, as defined in WAC 4-30-010, CPA-Inactive certificate holder, a nonlicensee firm owner, or the employees of such persons has engaged in dishonesty, fraud, or negligence while representing oneself as a licensee, as defined in WAC 4-30-010, CPA-Inactive certificate holder, a nonlicensee firm owner, or an employee of such persons:

(a) An order of a court of competent jurisdiction 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 represent himself, herself, or itself as a licensee, as defined in WAC 4-30-010, CPA-Inactive certificate holder, or a nonlicensee firm owner;

(b) An order of a federal, state, local or foreign jurisdiction regulatory body, or a PCAOB, finding that the licensee, as defined in WAC 4-30-010, CPA-Inactive certificate holder, or nonlicensee firm owner, or employee of such persons committed an act of negligence, fraud, or dishonesty or other act reflecting adversely on the person’s fitness to represent himself, herself, or itself as a licensee, as defined in WAC 4-30-010, a CPA-Inactive certificate holder, or a nonlicensee firm owner;

(c) Cancellation, revocation, suspension, or refusal to renew the right to practice as a licensee, certificate holder, or a nonlicensee firm owner 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; or

(d) Suspension or revocation of the right to practice before any state agency, federal agency, or the PCAOB.

(7) 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 by a licensee, CPA-Inactive certificate holder, or nonlicensee firm owner;

(8) 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.

(9) 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).

**Note – Conflicts of Interest**

WAC 4-30-142(9), Enforcement describes certain conflicts of interest that are prohibited, e.g., borrowing money from a client or trust funds regardless of any effect on independence in attest engagements and employing persons or entities related to a fiduciary unless specifically authorized by the governing 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.

**AICPA and State Law Comparison - Loans**

In general, Washington prohibits loans from all clients not in the business of loaning money. The AICPA prohibitions on loans from clients applies only to clients in which independence is required.

(10) A violation of the Public Accountancy Act or failure to comply with a board rule contained in Title 4 WAC, by a licensee, defined in WAC 4-30-010, CPA-Inactive certificate holder, or employees of such persons of this state or a licensee of another substantially equivalent state qualified for practice privileges, 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 that does not meet the firm mobility requirements under RCW 18.04.195 (1)(a)(iii) (A) through (D) 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 an out-of-state firm operating under firm mobility per RCW 18.04.195 (1)(a) (iii), 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 firm licensed in this state, or a firm operating under firm mobility 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.

(11) Violation of one or more of the rules of professional conduct included in Title 4 WAC.

(12) Concealing another’s violation of the Public Accountancy Act or board rules.

(13) 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.

(14) Failure to comply with an order of the board.

(15) Adjudication of a licensee, as defined by WAC 4-30-010, CPA-Inactive certificate holder, or a nonlicensee firm owner as mentally incompetent is prima facie evidence that the person lacks the professional competence required by the rules of professional conduct.

(16) Failure of a licensee, as defined by WAC 4-30-010, CPA-Inactive certificate holder, nonlicensee firm owner, or out-of-state person exercising practice privileges authorized by RCW 18.04.195 and 18.04.350 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 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;

(c) Sanctions or orders entered against such persons by a nongovernmental professionally related standard-setting body for violation of ethical or technical standards in the practice of public accounting by a licensee, CPA-Inactive certificate holder, or nonlicensee firm owner.

**Observation**

| In recent years, the Board of Accountancy has begun relying more on board policies and interpretations rather than relying solely on rules. Policies and interpretations can be generated on a more timely basis and can address specific situations that board rules would have difficulty addressing. A good example of this is Board Policy 2004-1 Sanction and Penalty Guidelines. This policy explains the likely result of breaking the rule you just read. The 16 page policy is beyond the scope of this course, but I encourage you to review the policy which is posted on the Board’s website. The policy contains a long list of categories of misconduct along with the types of possible sanctions as well as numerous examples of sanctionable acts. |

**IV. LAWS**

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Chapter 2: Ethics and Prohibited Practices

Chapter 18.04 RCW
Accountancy

Sections

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RCW 18.04.105 Issuance of license--Requirements--Examination--Fees--Certified public accountants’ account--Valid certificates previously issued under chapter--Continuing professional education--Inactive certificates.

(1) A license to practice public accounting shall be granted by the board to any person:

   (a) Who is of good character. Good character, for purposes of this section, means lack of a history of dishonest or felonious acts. The board may refuse to grant a license on the ground of failure to satisfy this requirement only if there is a substantial connection between the lack of good character of the applicant and the professional and ethical responsibilities of a licensee and if the finding by the board of lack of good character is supported by a preponderance of evidence. When an applicant is found to be unqualified for a license because of a lack of good character, the board shall furnish the applicant a statement containing the findings of the board and a notice of the applicant’s right of appeal;

   (b) Who has met the educational standards established by rule as the board determines to be appropriate;

   (c) Who has passed an examination;

   (d) Who has had one year of experience which is gained:

      (i) Through the use of accounting, issuing reports, management advisory, financial advisory, tax, tax advisory, or consulting skills;

      (ii) While employed in government, industry, academia, or public practice; and

Observation: Good Character

Recall that the primary purpose of the Accountancy Act is public protection. The Board may deny a license to an applicant that has a history of dishonest acts, whether or not these acts lead to a criminal conviction. The receipt of a CPA license conveys with it a bit of trust. The Board has a duty to protect the public from those with a history of dishonesty.
(iii) Meeting the competency requirements in a manner as determined by the board to be appropriate and established by board rule; and

(e) Who has paid appropriate fees as established by rule by the board.

(2) The examination described in subsection (1)(c) of this section shall test the applicant’s knowledge of the subjects of accounting and auditing, and other related fields the board may specify by rule. The time for holding the examination is fixed by the board and may be changed from time to time. The board shall prescribe by rule the methods of applying for and taking the examination, including methods for grading examinations and determining a passing grade required of an applicant for a license. The board shall to the extent possible see to it that the grading of the examination, and the passing grades, are uniform with those applicable to all other states. The board may make use of all or a part of the uniform certified public accountant examination and advisory grading service of the American Institute of Certified Public Accountants and may contract with third parties to perform administrative services with respect to the examination as the board deems appropriate to assist it in performing its duties under this chapter. The board shall establish by rule provisions for transitioning to a new examination structure or to a new media for administering the examination.

(3) The board shall charge each applicant an examination fee for the initial examination or for reexamination. The applicable fee shall be paid by the person at the time he or she applies for examination, reexamination, or evaluation of educational qualifications. Fees for examination, reexamination, or evaluation of educational qualifications shall be determined by the board under chapter 18.04 RCW. There is established in the state treasury an account to be known as the certified public accountants’ account. All fees received from candidates to take any or all sections of the certified public accountant examination shall be used only for costs related to the examination.

(4) Persons who on June 30, 2001, held valid certificates previously issued under this chapter shall be deemed to be certificate holders, subject to the following:

(a) Certificate holders may, prior to June 30, 2006, petition the board to become licensees by documenting to the board that they have gained one year of experience through the use of accounting, issuing reports, management advisory, financial advisory, tax, tax advisory, or consulting skills, without regard to the eight-year limitation set forth in (b) of this subsection, while employed in government, industry, academia, or public practice.

(b) Certificate holders who do not petition to become licensees prior to June 30, 2006, may after that date petition the board to become licensees by documenting to the board that they have one year of experience acquired within eight years prior to applying for a license through the use of accounting, issuing reports, management advisory, financial advisory, tax, tax advisory, or consulting skills in government, industry, academia, or public practice.

(c) Certificate holders who petition the board pursuant to (a) or (b) of this subsection must also meet competency requirements in a manner as determined by the board to be appropriate and established by board rule.
(d) Any certificate holder petitioning the board pursuant to (a) or (b) of this subsection to become a licensee must submit to the board satisfactory proof of having completed an accumulation of one hundred twenty hours of CPE during the thirty-six months preceding the date of filing the petition.

(e) Any certificate holder petitioning the board pursuant to (a) or (b) of this subsection to become a licensee must pay the appropriate fees established by rule by the board.

(5) Certificate holders shall comply with the prohibition against the practice of public accounting in RCW 18.04.345.

(6) Persons who on June 30, 2001, held valid certificates previously issued under this chapter are deemed to hold inactive certificates, subject to renewal as inactive certificates, until they have petitioned the board to become licensees and have met the requirements of subsection (4) of this section. No individual who did not hold a valid certificate before July 1, 2001, is eligible to obtain an inactive certificate.

(7) Persons deemed to hold inactive certificates under subsection (6) of this section shall comply with the prohibition against the practice of public accounting in subsection (8)(b) of this section and RCW 18.04.345, but are not required to display the term inactive as part of their title, as required by subsection (8)(a) of this section until renewal. Certificates renewed to any persons after June 30, 2001, are inactive certificates and the inactive certificate holders are subject to the requirements of subsection (8) of this section.

(8) Persons holding an inactive certificate:

(a) Must use or attach the term “inactive” whenever using the title CPA or certified public accountant or referring to the certificate, and print the word “inactive” immediately following the title, whenever the title is printed on a business card, letterhead, or any other document, including documents published or transmitted through electronic media, in the same font and font size as the title; and

(b) Are prohibited from practicing public accounting.

RCW 18.04.180 Reciprocity.

(1) The board shall issue a license to a holder of a certificate/valid license issued by another state that entitles the holder to practice public accountancy, provided that:

(a) Such state makes similar provision to grant reciprocity to a holder of a valid certificate or license in this state;

(b) The applicant meets the CPE requirements of RCW 18.04.215(5);

(c) The applicant meets the good character requirements of RCW 18.04.105(1)(a); and

(d) The applicant passed the examination required for issuance of his or her certificate or license with grades that would have been passing grades at that time in this state and meets all current requirements in this state for issuance of a license at the time
application is made; or at the time of the issuance of the applicant’s license in the other state, met all the requirements then applicable in this state; or has three years of experience within the five years immediately preceding application or had five years of experience within the ten years immediately preceding application in the practice of public accountancy that meets the requirements prescribed by the board.

(2) The board may accept NASBA’s designation of the applicant as substantially equivalent to national standards as meeting the requirement of subsection (1)(d) of this section.

(3) A licensee who has been granted a license under the reciprocity provisions of this section shall notify the board within thirty days if the license or certificate issued in the other jurisdiction has lapsed or if the status of the license or certificate issued in the other jurisdiction becomes otherwise invalid.

**RCW 18.04.195 License required--Requirements--Application--Fees.**

(1) The board shall grant or renew licenses to practice as a CPA firm to applicants that demonstrate their qualifications therefore in accordance with this section.

(a) The following must hold a license issued under this section:

(i) Any firm with an office in this state performing attest services as defined in RCW 18.04.025(1) or compilations as defined in RCW 18.04.025(6);

(ii) Any firm with an office in this state that uses the title “CPA” or “CPA firm”; or

(iii) Any firm that does not have an office in this state but offers or renders attest services described in RCW 18.04.025 in this state, unless it meets each of the following requirements:

(A) Complies with the qualifications described in subsection (3)(c), (4)(a), or (5)(c) of this section;

(B) Meets the board’s quality assurance review program requirements authorized by RCW 18.04.055(9) and the rules implementing such section;

(C) Performs such services through an individual with practice privileges under RCW 18.04.350(2); and

(D) Can lawfully do so in the state where said individuals with practice privileges have their principal place of business.

(b) A firm that is not subject to the requirements of subsection (1)(a) of this section may perform compilation services described in RCW 18.04.025(6) and other nonattest professional services while using the title “CPA” or “CPA firm” in this state without a license issued under this section only if:
(i) The firm performs such services through an individual with practice privileges under RCW 18.04.350(2); and

(ii) The firm can lawfully do so in the state where said individuals with practice privileges have their principal place of business.

(2) A sole proprietorship required to obtain a license under subsection (1) of this section shall license, as a firm, every three years with the board.

(a) The sole proprietor shall hold and renew a license to practice under RCW 18.04.105 and 18.04.215, or, in the case of a sole proprietorship that must obtain a license pursuant to subsection (1)(a)(iii) of this section, be a licensee of another state who meets the requirements in RCW 18.04.350(2);

(b) Each resident individual in charge of an office located in this state shall hold and renew a license to practice under RCW 18.04.105 and 18.04.215; and

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

(3) A partnership required to obtain a license under subsection (1) of this section shall license as a firm every three years with the board, and shall meet the following requirements:

(a) At least one general partner of the partnership shall hold and renew a license to practice under RCW 18.04.105 and 18.04.215, or, in the case of a partnership that must obtain a license pursuant to subsection (1)(a)(iii) of this section, be a licensee of another state who meets the requirements in RCW 18.04.350(2);

(b) Each resident individual in charge of an office in this state shall hold and renew a license to practice under RCW 18.04.105 and 18.04.215;

(c) At least a simple majority of the ownership of the licensed firm in terms of financial interests and voting rights of all partners or owners shall be held by persons who are licensees or holders of a valid license issued under this chapter or by another state. The principal partner of the partnership and any partner having authority over issuing reports shall hold a license under this chapter or issued by another state; and

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

(4) A corporation required to obtain a license under subsection (1) of this section shall license as a firm every three years with the board and shall meet the following requirements:

(a) At least a simple majority of the ownership of the licensed firm in terms of financial interests and voting rights of all shareholders or owners shall be held by persons who are licensees or holders of a valid license issued under this chapter or by another state and is principally employed by the corporation or actively engaged in its business. The principal officer of the corporation and any officer or director having authority over issuing reports shall hold a license under this chapter or issued by another state;
(b) At least one shareholder of the corporation shall hold a license under RCW 18.04.105 and 18.04.215, or, in the case of a corporation that must obtain a license pursuant to subsection (1)(a)(iii) of this section, be a licensee of another state who meets the requirements in RCW 18.04.350(2);

(c) Each resident individual in charge of an office located in this state shall hold and renew a license under RCW 18.04.105 and 18.04.215;

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

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

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

(5) A limited liability company required to obtain a license under subsection (1) of this section shall license as a firm every three years with the board, and shall meet the following requirements:

(a) At least one member of the limited liability company shall hold a license under RCW 18.04.105 and 18.04.215, or, in the case of a limited liability company that must obtain a license pursuant to subsection (1)(a)(iii) of this section, be a licensee of another state who meets the requirements in RCW 18.04.350(2);

(b) Each resident manager or member in charge of an office located in this state shall hold and renew a license under RCW 18.04.105 and 18.04.215;

(c) At least a simple majority of the ownership of the licensed firm in terms of financial interests and voting rights of all owners shall be held by persons who are licensees or holders of a valid license issued under this chapter or by another state. The principal member or manager of the limited liability company and any member having authority over issuing reports shall hold a license under this chapter or issued by another state; and

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

(6) Application for a license as a firm with an office in this state shall be made upon the affidavit of the proprietor or individual designated as managing partner, member, or shareholder for Washington. This individual shall hold a license under RCW 18.04.215.

(7) In the case of a firm licensed in another state and required to obtain a license under subsection (1)(a)(iii) of this section, the application for the firm license shall be made upon the affidavit of an individual
who qualifies for practice privileges in this state under RCW 18.04.350(2) who has been authorized by the applicant firm to make the application. The board shall determine in each case whether the applicant is eligible for a license.

(8) The board shall be given notification within ninety days after the admission or withdrawal of a partner, shareholder, or member engaged in this state in the practice of public accounting from any partnership, corporation, or limited liability company so licensed.

(9) Licensed firms that fall out of compliance with the provisions of this section due to changes in firm ownership, after receiving or renewing a license, shall notify the board in writing within ninety days of its falling out of compliance and propose a time period in which they will come back into compliance. The board may grant a reasonable period of time for a firm to be in compliance with the provisions of this section. Failure to bring the firm into compliance within a reasonable period of time, as determined by the board, may result in suspension, revocation, or imposition of conditions on the firm’s license.

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

(11) Nonlicensee owners of licensed firms are:

(a) Required to fully comply with the provisions of this chapter and board rules;
(b) Required to be an individual;
(c) Required to be of good character, as defined in RCW 18.04.105(1)(a), and an active individual participant in the licensed firm or affiliated entities as these terms are defined by board rule; and
(d) Subject to discipline by the board for violation of this chapter.

(12) Resident nonlicensee owners of licensed firms are required to meet:

(a) The ethics examination, registration, and fee requirements as established by the board rules; and
(b) The ethics CPE requirements established by the board rules.

(13) (a) Licensed firms must notify the board within thirty days after:

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

(ii) Sanction or order against the licensee or nonlicensee firm owner by any federal or other state agency related to the licensee’s practice of public accounting or violation of ethical or technical standards established by board rule; or
(iii) The licensed firm is notified that it has been charged with a violation of law that could result in the suspension or revocation of the firm’s license by a federal or other state agency, as identified by board rule, related to the firm’s professional license, practice rights, or violation of ethical or technical standards established by board rule.

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

RCW 18.04.205 Registration of offices--Requirements--Rules--Fees.

(1) Each office established or maintained in this state for the purpose of offering to issue or issuing reports in this state or that uses the title “certified public accountant” or “CPA,” shall register with the board under this chapter every three years.

(2) Each office established or maintained in this state shall be under the direct supervision of a resident licensee holding a license under RCW 18.04.105 and 18.04.215.

(3) The board shall by rule prescribe the procedure to be followed to register and maintain offices established in this state for the purpose of offering to issue or issuing attest or compilation reports or that use the title “certified public accountant” or “CPA.”

(4) Fees for the registration of offices shall be determined by the board. Fees shall be paid by the applicant at the time the registration form is filed with the board.


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

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

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

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

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

(3) An inactive certificate is renewed every three years with renewal subject to the requirements of ethics CPE and the payment of fees, prescribed by the board. Failure to renew the inactive certificate shall cause the inactive certificate to lapse and be subject to reinstatement. The board shall adopt rules providing for fees and procedures for renewal and reinstatement of inactive certificates.
(4) A license is issued every three years with renewal subject to requirements of CPE and payment of fees, prescribed by the board. Failure to renew the license shall cause the license to lapse and become subject to reinstatement. Persons holding a lapsed license are prohibited from using the title “CPA” or “certified public accountant.” Persons holding a lapsed license are prohibited from practicing public accountancy. The board shall adopt rules providing for fees and procedures for issuance, renewal, and reinstatement of licenses.

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

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

   (b) Establish CPE requirements; and

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

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

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

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

(8) Fees for renewal or reinstatement of certificates and licenses in this state shall be determined by the board under this chapter. Fees shall be paid by the applicant at the time the application form is filed with the board. The board, by rule, may provide for proration of fees for licenses or certificates issued between normal renewal dates.

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

   (i) Sanction, suspension, revocation, or modification of their professional license or practice rights by the securities exchange commission, internal revenue service, or another state board of accountancy;
(ii) Sanction or order against the licensee, certificate holder, or nonlicensee owner by any federal or other state agency related to the licensee’s practice of public accounting or the licensee’s, certificate holder’s, or nonlicensee owner’s violation of ethical or technical standards established by board rule; or

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

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

V. OTHER BOARD INFORMATION

BOARD POLICIES

Below is a listing of board policies for future reference. The policies are available on the Board’s website www.cpaboard.wa.gov. Most Board policies were revised in 2011.

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
2015-1 Board Member Travel and Attendance at Group Gatherings
COMPLAINTS

The Board investigates about 90 to 150 complaints a year. Some common complaints that they investigate are:

- Negligence and gross negligence in the performance of professional services
- Tax errors or failure to complete services
- Failure to return client records
- CPA title use by non-CPA accountants, bookkeepers, or firms
- Disclosure of confidential information
- Failure to maintain competency
- Violations of Board regulatory requirements

**Tax errors or failure to complete services**

The Board does not investigate complaints regarding a CPA’s minor or immaterial tax return errors or findings. Taxpayers are required by law to ensure that the information on their return is accurate and complete.

**Failure to Return Client Records**

CPAs, upon request and within a reasonable period of time, must furnish a client or former client with (RCW 18.04.390):

- Any original papers the client provided to the CPA, or any record the CPA obtained on behalf of the client.
- A copy of the CPA’s working papers or electronic documents, provided the working papers or electronic documents include records that would ordinarily constitute part of the client’s records and are not otherwise available to the client.

CPAs cannot refuse to return client records pending client payment of outstanding fees.

**CPA title use by non-CPA accountants, bookkeepers, or firms**

The use of the title certified public accountant (CPA), public accountant, or similar title that implies they are a CPA by an individual or firm that is not licensed to do so is prohibited. (RCW 18.04.345)
Disclosure of confidential information

CPAs cannot disclose any client’s information without their prior consent (WAC 4-30-050) except for:

- Inquiries from the Board
- Court orders
- Subpoenas

<table>
<thead>
<tr>
<th>Staying Informed</th>
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<tr>
<td>The Board maintains an excellent website (<a href="http://www.cpaboard.wa.gov">www.cpaboard.wa.gov</a>). I encourage you to bookmark it and refer to it often for information on new and updated laws, rules, and Board policies.</td>
</tr>
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# CHAPTER 2: TEST YOUR KNOWLEDGE

The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). They are included as an additional tool to enhance your learning experience and do not need to be submitted in order to receive CPE credit.

We recommend that you answer each question and then compare your response to the suggested solutions on the following page(s) before answering the final exam questions related to this chapter (assignment).

<table>
<thead>
<tr>
<th></th>
<th>Which of the following is not a focus of the Public Accountnacy Act and administrative positions of the Act and board rules:</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>A. to promote the reliability of information used for decision making</td>
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<td></td>
<td>B. to ensure licensees and CPA-Inactive certificate holders maintain their competency</td>
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<td></td>
<td>C. to ensure that applicants charge their clients reasonable fees</td>
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<td></td>
<td>D. to ensure that applicants for licensure are qualified</td>
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<th>Within how many days must a licensee notify the Board of any change of address:</th>
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<tbody>
<tr>
<td>2</td>
<td>A. 10 days</td>
</tr>
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<td></td>
<td>B. 20 days</td>
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<tr>
<td></td>
<td>C. 30 days</td>
</tr>
<tr>
<td></td>
<td>D. 60 days</td>
</tr>
</tbody>
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<tr>
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<th>Under WAC 4-30-040, which of the following is a requirement concerning integrity and objectivity:</th>
</tr>
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<tbody>
<tr>
<td>3</td>
<td>A. licensees must not misrepresent facts</td>
</tr>
<tr>
<td></td>
<td>B. licensees must remain honest and objective</td>
</tr>
<tr>
<td></td>
<td>C. licensees must not subordinate their judgement to others</td>
</tr>
<tr>
<td></td>
<td>D. all of the above</td>
</tr>
</tbody>
</table>
4. **Which of the following is true regarding contingent fees:**

   A. contingent fees are never allowed  
   B. all contingent fee arrangements must be in writing and include the method of calculating the fee  
   C. non-public CPAs may accept contingent fees but public practice CPAs may never accept a contingent fee  
   D. contingent fees are never allowed in tax disputes

5. **Which of the following is considered prohibited advertising according to the Washington Board but not by the AICPA:**

   A. advertising that fails to make full disclosure of the relevant facts  
   B. advertising that is false  
   C. advertising that is misleading  
   D. advertising that is deceptive

6. **Which of the following is correct regarding CPA firm organization and ownership per WAC 4-30-110:**

   A. CPA firm organization is limited to proprietorships and partnerships  
   B. all of the owners of a licensed firm in terms of financial interests and voting rights must be licensed in the state of Washington  
   C. a mere change in the legal form of an existing firm does not constitute a new firm for licensing purposes  
   D. a nonlicensee owner must be an individual

7. **Steve is a Washington CPA whose license expires June 30, 2016. Steve applies for an extension of time to complete his CPE. When is Steve's deadline for submitting a CPE extension request:**

   A. December 31, 2015  
   B. June 20, 2016  
   C. July 1, 2016  
   D. December 31, 2016
## CHAPTER 2: SOLUTIONS AND SUGGESTED RESPONSES

Below are the solutions and suggested responses for the questions on the previous page(s). If you choose an incorrect answer, you should review the pages as indicated for each question to ensure comprehension of the material.

| 1. | A. Incorrect. Promoting the reliability of information used for decision making is a focus of the Public Accountancy Act.  
B. Incorrect. One of the focuses of the administrative provisions of the Act and board rules is to ensure licensees and CPA-Inactive certificate holders maintain their competency, and perform competently and responsibly during all periods during which their regulated status is active.  
C. **CORRECT**. Ensuring that licensees charge reasonable fees for their services is not a focus of the Public Accountancy Act.  
D. Incorrect. A focus of the administrative positions of the Act and board rules is to ensure that applicants for licensure are qualified.  

*(See page 35 of the course material.)* |
|---|---|
| 2. | A. Incorrect. A licensee has longer than 10 days in which to notify the Board of a change of address.  
B. Incorrect. The period of time in which a licensee has to notify the Board of a change of address is longer than 20 days.  
C. **CORRECT**. The Board requires that licensees notify the Board, in writing, within 30 days of any change of address.  
D. Incorrect. The notification timeframe is less than 60 days.  

*(See page 38 of the course material.)* |
| 3. | A. Incorrect. Licensees must not misrepresent facts however, this is not the only correct selection.  
B. Incorrect. Licensees are required to remain honest and objective when performing services. This is not the only selection provided that is correct.  
C. Incorrect. WAC 4-30-040 requires licensees to not subordinate their judgement to others. This is not the only correct selection listed.  
D. **CORRECT**. WAC 4-30-040 requires licensees, when offering or performing services, to remain honest and objective, not misrepresent facts, and not subordinate their judgement to others.  

*(See pages 39 to 40 of the course material.)* |
4. **A. Incorrect.** Contingent fees are allowed in certain circumstances with non-attest clients.
   **B. CORRECT.** Assuming a contingent fee agreement meets all the other requirements, it must be in writing and include the method of calculating the fee.
   **C. Incorrect.** A public practice CPA may accept contingent fees from non-attest clients in certain circumstances.
   **D. Incorrect.** A CPA may charge a contingent fee for representing a client during an IRS audit of the client’s tax return.
   *(See pages 41 to 43 of the course material.)*

5. **A. CORRECT.** Although not specifically prohibited by the AICPA, the Washington Board, under WAC 4-30-054, prohibits advertising that fails to make full disclosure of relevant facts.
   **B. Incorrect.** The Washington Board and AICPA both prohibit advertising that is false.
   **C. Incorrect.** Advertising that is misleading is prohibited both by the AICPA and the Washington Board.
   **D. Incorrect.** Deceptive advertising is prohibited by the AICPA and the Washington Board.
   *(See pages 53 to 54 of the course material.)*

6. **A. Incorrect.** Permitted forms that a CPA firm may organize as include proprietorships, partnerships, professional corporations, professional service corporations, limited liability companies, limited liability partnerships, or any other form of legal entity authorized by Washington state statute.
   **B. Incorrect.** A simple majority of the owners of a licensed firm in terms of financial interests and voting rights must be licensed in Washington state.
   **C. Incorrect.** A mere change in the legal form of an existing firm constitutes a new firm for licensing purposes, which requires the new entity to obtain a CPA firm license from the board.
   **D. CORRECT.** A nonlicensee owner must be an individual, meet the good character requirements, comply with board rules, and be an active individual participant in the licensed firm.
   *(See pages 61 to 63 of the course material.)*
7. **A. CORRECT.** WAC 4-30-134 requires licensees to request a CPE extension in writing by December 31st of the calendar year preceding the calendar year of his or her renewal.

**B. Incorrect.** June of the renewal year is too late to request an extension from the Board.

**C. Incorrect.** The Board requires that an extension request be made in the year preceding the renewal year.

**D. Incorrect.** December of 2016 is too late to request a CPE extension.

(See page 75 of the course material.)
**American Institute of Certified Public Accountants (AICPA)** - The national professional organization for all certified public accountants (CPAs).

**Client’s records** - Any accounting or other records belonging to the client that were given to the member by, or on behalf of, the client.

**Close relative** - Close relatives are the member’s nondependent children (including grandchildren and stepchildren), brothers and sisters, grandparents, parents, and parents-in-law. Spouses of any of the above are also close relatives. The SEC definition of close relatives expands the above to include a spouse’s brothers and sisters and their spouses.

**Code of Professional Conduct (the Code)** - The Code was adopted by the membership of the AICPA to provide guidance and rules to all members on various ethics requirements. The Code consists of: 1) Principles, 2) Rules, 3) Interpretations, and 4) Ethics Rulings.

**Conflict 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.

**Consulting services** - Professional services that use the practitioner’s technical skills, education, observations, experiences, and knowledge of the consulting process.

**Contingent fee** - A fee for performing any service in which the amount of the fee (or whether a fee will be paid) depends on the results of the service.

**Direct financial interest** - A direct financial interest is created when a member invests in a client entity.

**Ethics Rulings** - Part of the Code of Professional Conduct. Rulings summarize the application of rules and interpretations to a particular set of factual circumstances.

**Firm** - A form of organization permitted by state law or regulation whose characteristics conform to resolutions of Council that is engaged in the practice of public accounting, including the individual owners thereof.

**Holding out as a CPA** - Includes any action initiated by a member, whether or not in public practice, that informs others of his or her status as a CPA.

**Independence in appearance** - If there are circumstances that a reasonable person might believe are likely to impair independence, the CPA is not independent in appearance. To be recognized as independent, the auditor must be free from any obligation to or interest in the client, its management, or its owners.
**Independence in fact** - To be independent in fact (mental independence), the CPA must have integrity and objectivity. If there is evidence that independence is actually lacking, the auditor is not independent in fact.

**Indirect financial interest** - An indirect financial interest is created when a member invests in a nonclient entity that has a financial interest in a client.

**Integrity** - An element of character fundamental to professional recognition. It is the quality from which public trust derives and the benchmark against which a member must ultimately test all decisions.

**Member** - In its broadest sense, “member” is a term used to describe a member, associate member, or international associate of the AICPA. All members must adhere to the AICPA’s Code of Professional Conduct. For the purposes of applying the independence rules, the term “member” identifies the people in a CPA firm and their spouses, dependents, and cohabitants who are subject to the independence requirements.

**National Association of State Boards of Accountancy (NASBA)** - A voluntary organization composed of the state boards of accountancy. It promotes communication, coordination, and uniformity among state boards.

**Objectivity** - The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest. Objectivity is a state of mind, a quality that lends value to a member’s services.

**Practice of public accounting** - According to the Code of Professional Conduct, the practice of public accounting consists of the performance for a client, by a member or a member’s firm, while holding out as CPAs, of the professional services of accounting, tax, personal financial planning, litigation support services, and those professional services for which standards are promulgated by bodies designated by Council, such as Statements of Financial Accounting Standards, Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements on Standards for Consulting Services, Statements on Standards for Tax Services, Statements of Governmental Accounting Standards, and Statements on Standards for Attestation Engagements. However, a member or member’s firm, while holding out as CPAs, is not considered to be in the practice of public accounting if the member or the member’s firm does not perform, for any client, any of the professional services described in the preceding paragraph.

**Principles** - Positive statements of responsibility in the Code of Professional Conduct that provide the framework for the rules, which govern performance.

**Professional services** - Includes all services performed by a member while holding out as a CPA.

**Rules** - Broad but specific descriptions of conduct that would violate the responsibilities stated in the principles in the Code of Professional Conduct.

**Securities and Exchange Commission (SEC)** - A federal government regulatory agency with responsibility for administering the federal securities laws.
**Statements on Standards for Tax Services (SSTS)** - SSTS superseded and replaced the AICPA's Statements on Responsibilities in Tax Practice (SRTP). They are enforceable standards of conduct for tax practice under the Code of Professional Conduct.

**Unpaid fees** - Fees for: 1) audit, and 2) other professional services that relate to certain prior periods that are delinquent as of the date the current year’s audit engagement begins, if the client is an SEC registrant, or the date the audit report is issued for non-SEC clients (i.e., AICPA rule).
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