



RULE-MAKING ORDER

CR-103P (May 2009)
(Implements RCW 34.05.360)

Agency: Board of Accountancy

Permanent Rule Only

Effective date of rule:

Permanent Rules

31 days after filing.

Other (specify) _____ (If less than 31 days after filing, a specific finding under RCW 34.05.380(3) is required and should be stated below)

Any other findings required by other provisions of law as precondition to adoption or effectiveness of rule?

Yes No If Yes, explain:

Purpose: (1) Amend and decodify: WAC 4-25-640 What are the requirements concerning records and clients confidential information? (2) Separate the portion of WAC 4-25-640 dealing with client records into a new rule: WAC 4-30-051 What are the requirements concerning client records, including response to requests by clients and former clients for records? and (3) Amend and decodify: WAC 4-30-670 What enforcement actions must be reported to the board?

Included in comprehensive review of all of the Board's rules to:

- Recognize online services' impact on procedures
- Use consistent language throughout the rules
- Incorporate Board policy into rule
- Add new rules to accommodate changes in environment
- Reorganize the rules resulting in renumbering and grouping into like functions

Citation of existing rules affected by this order:

Repealed:
Amended: See attached
Suspended:

Statutory authority for adoption: See attached

Other authority :

PERMANENT RULE (Including Expedited Rule Making)

Adopted under notice filed as WSR 10-24-039 on November 23, 2010 (date).
Describe any changes other than editing from proposed to adopted version:

If a preliminary cost-benefit analysis was prepared under RCW 34.05.328, a final cost-benefit analysis is available by contacting:

Name: _____ phone () _____
Address: _____ fax () _____
e-mail _____

Date adopted: 1/27/2011

NAME (TYPE OR PRINT)
Richard C. Sweeney

SIGNATURE

TITLE
Executive Director

CODE REVISER USE ONLY

OFFICE OF THE CODE REVISER
STATE OF WASHINGTON
FILED

DATE: March 02, 2011
TIME: 8:35 AM

WSR 11-06-062

**Note: If any category is left blank, it will be calculated as zero.
No descriptive text.**

**Count by whole WAC sections only, from the WAC number through the history note.
A section may be counted in more than one category.**

The number of sections adopted in order to comply with:

Federal statute:	New	<u>0</u>	Amended	<u>0</u>	Repealed	<u>0</u>
Federal rules or standards:	New	<u>0</u>	Amended	<u>0</u>	Repealed	<u>0</u>
Recently enacted state statutes:	New	<u>0</u>	Amended	<u>0</u>	Repealed	<u>0</u>

The number of sections adopted at the request of a nongovernmental entity:

	New	<u>0</u>	Amended	<u>0</u>	Repealed	<u>0</u>
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The number of sections adopted in the agency's own initiative:

	New	<u>1</u>	Amended	<u>2</u>	Repealed	<u>0</u>
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The number of sections adopted in order to clarify, streamline, or reform agency procedures:

	New	<u>12</u>	Amended	_____	Repealed	<u>0</u>
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The number of sections adopted using:

Negotiated rule making:	New	<u>0</u>	Amended	<u>0</u>	Repealed	<u>0</u>
Pilot rule making:	New	<u>0</u>	Amended	<u>0</u>	Repealed	<u>0</u>
Other alternative rule making:	New	<u>1</u>	Amended	<u>2</u>	Repealed	<u>0</u>

Citation of Existing Rules Affected by this Order:

WAC section:	Title:	New WAC Section:	Grouping
4-25-640	What are the requirements concerning records and clients confidential information?	4-30-050	Ethics and Prohibited Practices
4-25-670	What enforcement actions must be reported to the board	4-30-036	Board Administration

New WAC Section:	Title:	Grouping
4-30-051	What are the requirements concerning client records, including response to requests by clients and former clients for records?	Ethics and Prohibited Practices

WAC section:	Statutory authority for adoption
4-25-640	RCW 18.04.055(2); 18.04.390(4)(b); RCW 18.04.405(1)
4-25-670	RCW 18.04.195(13)(b); 18.04.215(9)(b)
4-30-051	RCW 18.04.055(2); 18.04.390(4)(b); 18.04.405(1)

AMENDATORY SECTION (Amending WSR 08-18-016, filed 8/25/08, effective 9/25/08)

WAC 4-25-640 What are the requirements concerning records and clients confidential information? (1) **Client:** The term "client" as used throughout ~~((this section))~~ WAC 4-30-050 and 4-30-051 includes former and current clients. For purposes of this section, a client relationship has been formed when confidential information has been disclosed by a prospective client in an initial interview to obtain or provide professional services.

(2) ~~((Property of the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner:~~ In the absence of an express agreement between a licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner and the client to the contrary, all statements, records, schedules, working papers, and memoranda made by a licensee incident to or in the course of professional service to clients, except reports submitted by a licensee, are the property of the licensee.

~~(3))~~ **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.

~~((4))~~ **(3) Confidential client communication or information:** Licensees, CPA-Inactive certificate holders, nonlicensee firm owners ~~((, or employees of such persons))~~ must not without the consent of the client or the heirs, successors ~~((or personal))~~, authorized representatives or employee of the client disclose any confidential communication or information pertaining to the client obtained in the course of performing professional services.

(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.

~~((5) **Client records:** Licensees, CPA-Inactive certificate holders, nonlicensee firm owners, and employees of such persons must furnish to their client or heirs, successors or personal representatives, upon request and reasonable notice:~~

~~(a) A copy of records, schedules, and electronic documents of those persons, to the extent that such records and schedules would ordinarily constitute part of the client's records and are not otherwise available to the client; and~~

~~(b) Any accounting or other records belonging to, or obtained from or on behalf of, the client, that the licensee, CPA-Inactive certificate holder, or nonlicensee firm owner, or employees of such persons removed from the client's premises or received for the client's account, including electronic documents; but such persons may make and retain copies of such documents of the client when they form the basis for the professional services offered or rendered by those persons.~~

~~(c) Licensees, CPA-Inactive certificate holders, nonlicensee firm owners, and/or employees of such persons must not refuse to return client records, including electronic documents, pending client payment of outstanding fees.~~

~~(6) **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.)~~

AMENDATORY SECTION (Amending WSR 08-18-016, filed 8/25/08, effective 9/25/08)

WAC 4-25-670 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) ((Individual licensees and sole proprietors are to report action pursuant to subsection (1) of this section taken against the individual's license and/or the license of the sole proprietorship.~~

~~(3))~~ Licensed CPA firms with more than one licensed owner are not required to report on action taken against owners, principals, partners, or employees.

~~((4))~~ (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.

NEW SECTION

The following sections of the Washington Administrative Code are decodified as follows:

Old WAC Number	New WAC Number
4-25-640	4-30-050
4-25-670	4-30-036

NEW SECTION

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

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

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

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

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

(8) Where a licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner is required to return or provide records to the client, the licensee, CPA-Inactive certificate holder, and/or

nonlicensee firm owner should comply with the client's request as soon as practicable but, absent extenuating circumstances, no later than forty-five days after the request is made. The fact that the statutes of the state in which the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner practices grants the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner a lien on certain records in his or her custody or control does not relieve the licensee, CPA-Inactive certificate holder, and/or nonlicensee firm owner of his or her obligation to comply with this section.

(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.