

CALIFORNIA BOARD OF ACCOUNTANCY

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Protection of the public shall be the highest priority for the California Board of Accountancy in exercising its licensing, regulatory, and disciplinary functions. Whenever the protection of the public is inconsistent with other interests sought to be promoted, the protection of the public shall be paramount.

— Business and Professions Code § 5000.1

The California Board of Accountancy (CBA) licenses, regulates, and disciplines certified public accountants (CPAs) and public accounting firms and corporations. The Board also regulates existing members of an additional classification of licensees called public accountants (PAs). The 1945 Accountancy Act granted the PA license only during a short period after World War II, with the last PA license issued in 1968.

CBA currently regulates over 108,000 individuals, corporations, and partnerships. In addition, it establishes and maintains standards of qualification and conduct within the accounting profession, primarily through its power to license. CBA's enabling act, the Accountancy Act, is found at Business and Professions Code section 5000 et seq.; its regulations appear in Division 1, Title 16 of the California Code of Regulations (CCR).

CBA is a consumer protection agency located within the Department of Consumer Affairs (DCA). The Board consists of 15 members: seven CBA licensees and eight public members. Each Board member serves a four-year term.

The Board's staff administers and processes the nationally standardized Uniform CPA Examination, currently, a four-part computerized exam encompassing the subjects of auditing and attestation; business law and professional responsibilities; regulation (including taxation, managerial accounting, and accounting for governmental and not-for-profit organizations); and

financial accounting and reporting (business enterprises). In order to be licensed, an applicant must complete 150 hours of college-level education, including substantial units in accounting, business-related subjects, and ethics. Applicants must also complete twelve months of general accounting experience and successfully pass all parts of the Uniform CPA Exam.

The operations of the Board are conducted through various advisory committees and, for specific projects, task forces which sunset at project completion. The Board's major advisory committees, which are legislatively established, include the following:

- The Qualifications Committee (QC), authorized in Business and Professions Code section 5023, consists of non-Board member CPAs who review applicants' experience to determine whether the applicants' experience complies with the requirements in Business and Professions Code section 5093 and section 12, Title 16 of the CCR.
- The Enforcement Advisory Committee (EAC), authorized in Business and Professions Code section 5020, consists of up to 13 non-Board member CPAs who provide technical assistance to the Board's enforcement program by conducting investigations or hearings against licensees and making recommendations to the enforcement program and the Executive Officer.
- The Peer Review Oversight Committee (PROC), created in Business and Professions Code section 5076.1, consists of up to seven CPAs appointed by the Board and oversees the Board's peer review requirement that is mandatory for licensees who perform attest engagements. The PROC is responsible for ensuring that peer review providers administer peer reviews in accordance with the standards set forth in section 48, Title 16 of the CCR.

At this writing, there are two Governor-appointed licensee vacancies on the Board.

HIGHLIGHTS

Board Proposes Rulemaking Regarding the Sale, Transfer, or Discontinuance of a Licensee's Practice

On July 30, 2021, CBA published [notice](#) of its intent to add sections 54.3 and 54.4, Title 16 of the CCR, to protect client confidentiality in the sale, transfer, or discontinuance of a licensee's practice. In its [Initial Statement of Reasons](#), CBA explained the proposed regulations constitute the Board's efforts to implement the American Institute of Certified Public Accountants (AICPA) Professional Ethics Executive Committee's (PEEC) revised interpretations of the AICPA Code of Professional Conduct.

The initial statement of reasons expands on the relevant interpretations of the AICPA Code of Professional Conduct. The interpretations recommend that CPA members submit a written request to each client who is subject to the sale or transfer of a licensee's practice, asking for the client's consent to transfer the client's files to the other firm. Members are further encouraged to retain evidence of the client's consent. Proposed section 54.3 would mirror the interpretation's recommendation and require licensees to mail and retain a copy of the written notice regarding the sale or transfer of a licensee's practice and retain any documentation indicating the client's consent or objection for a specified period of time. If a member is unable to contact the client, the interpretation recommends that those client's files remain confidential and follow either the firm's record retention policy or an applicable state law or regulation, whichever lasts longer. Proposed section 54.3 would require the licensee to retain the client files and records for a specified period and establish an appropriate method of disposal once the record retention period concludes.

The AICPA interpretation further recommends that a member who discontinued the practice and did not sell or transfer the practice notify each of the member's clients. Proposed section 54.4 would require licensees to notify the client and specifies how to do so. According to the initial statement of reasons, anticipated benefits from these added sections include established procedures for licensees to follow when selling or transferring their practice in order to protect the confidential information of affected consumers. In addition, the proposed sections create requirements for the handling of client records and their disposal, which further enhances consumer protection.

On September 16, 2021, the CBA held a public hearing on the proposed regulations described above. A [transcript](#) of the hearing appears on CBA's website and indicates that no public comments were received at the hearing. At the September 23, 2021 Board [meeting](#) [see [Agenda Item II.G.](#) and [Attachment 5](#)], Deanne Pearce (Assistant Executive Officer) explained that due to the nature of the proposals, all licensees receive notice of the proposed changes and have an opportunity to be heard. Therefore, a [second public hearing](#) is scheduled for January 6, 2022.

Board Publishes Notice of Rulemaking Proposal to Increase Fees

On July 2, 2021, the Board published [notice](#) of its intent to amend section 70, Title 16 of the CCR, to increase the Board's fee for an initial permit to practice public accountancy as a partnership, corporation, or CPA as set forth in the [proposed language](#). In addition, the Board proposes to increase the fee for renewal of a permit to practice as a partnership, corporation, public accountant, or CPA. According to the [initial statement of reasons](#), the proposed revisions will "increase fee levels to their statutory cap and are anticipated to generate approximately \$1.53

million annually.” The initial statement of reasons further states that fee increases are necessary “to ensure the CBA maintains sufficient financial resources to continue these functions essential to consumer protection.”

According to the initial statement of reasons, the proposed regulations address a structural imbalance where authorized expenditures are greater than projected revenues. This imbalance is reducing the fund balance reserve and creating insufficient resources to enable the CBA to carry out its consumer protection mandate. CBA proposes to increase the fee for the initial permit to practice as a partnership, corporation, or certified public accountant from the current rate of \$120 to the statutory maximum of \$280 and to align the regulations to reflect this increase. Similarly, CBA proposes to increase the fee for renewal of a permit to practice as a partnership, corporation, public accountant, or certified public accountant from the current rate of \$120 to the statutory maximum of \$280.

The 45-day public comment period for this rulemaking action ended August 17, 2021, and a public hearing was held on August 18, 2021.

At its September 24, 2021, WebEx [meeting](#) [Agenda item XI.A.], the Board considered and rejected the one public comment received. The Board voted to adopt the proposed amendments. At this writing, the proposed rulemaking package awaits Office of Administrative Law (OAL) approval.

CBA Sponsored Bill, AB 298 (Irwin) Becomes Law

[AB 298 \(Irwin\)](#), as amended June 17, 2021, amends sections 5007, 5070, 5070.5, and 5094.3, and adds sections 5009.5 and 5093.5 to the Business and Professions Code to implement CBA’s legislative proposals for 2021. Section 5007 allows the Board’s secretary-treasurer to

preside at Board meetings in the absence of the vice president and president and permits the president to designate a board member to preside at a meeting in which the secretary-treasurer is also absent. Section 5070 requires that permits to engage in public accountancy be issued by the Board only to holders of the certificate of certified public accountant issued under the chapter and to other persons who, upon application approval by the Board, are registered with the Board. Section 5070.5 clarifies the term of expiration of a permit and the renewal process, and section 5094.3 clarifies that the ethics education requirement for applicants may be fulfilled with coursework related to auditing and fraud.

Section 5009.5 adds that CBA applicant and licensee email addresses are confidential and are not to be considered a public record subject to disclosure pursuant to a California Public Records Act request, or posted on the internet pursuant to section 27 of the Business and Professions Code unless required by court order. Section 5093.5 allows admission of applicants to the CBA exam prior to completing the education requirements for licensure if the applicant is enrolled in a degree-granting university, college, or institution of learning and is within 180 days of completing the educational requirements. The amendment also requires applicants to provide the Board with satisfactory evidence of completion within 240 days of submitting the application.

According to the author, AB 298 furthers the CBA's consumer protection mission by: 1) streamlining the process for applicants to complete the Uniform Certified Public Accountant Exam; 2) supporting the Board's authority to conduct its board meetings; 3) clarifying the privacy of the Board's licensee and applicant email addresses; and 4) adding coursework in fraud and auditing as allowable to meet the ethics education requirement.

Governor Newsom signed AB 298 on September 24, 2021 (Chapter 300, Statutes of 2021).

MAJOR PUBLICATIONS

The following reports have been published by or about CBA during this reporting period:

- [Summer 2021 Update Newsletter - Issue No. 93](#), California Board of Accountancy (provides an overview of CBA's law and regulation changes, CBA and Committee meetings, new CBA programs, and topical information about enforcement, examination, licensure, and continuing education issues).

RULEMAKING

The following is a status update on recent rulemaking proceedings initiated by CBA:

- **Practice Privilege Notification Form:** On May 3, 2021, the public comment period expired on CBA's proposal to add subsection (e) to section 19, Title 16 of the CCR, which requires individuals exercising the practice privilege to submit the Practice Privilege Notification and Agreement Form to CBA, and brings CBA into compliance with section 5096.22 of the Business and Professions Code. [see [26:2 CRLR 122](#)] At this writing, the proposed regulation is under review by OAL.
- **Fee Increase:** On July 2, 2021, the Board published [notice](#) of its intent to amend section 70, Title 16 of the CCR to increase its fee for an initial permit or renewal to practice public accountancy as a partnership, corporation, or certified public accountant to the statutory maximum of \$280. At its September 24, 2021, WebEx [meeting](#) [Agenda item XI.A.], the Board voted to adopt the proposed amendments. At this writing, the proposal is under review by OAL (see HIGHLIGHTS).

- **Sale, Transfer, and Discontinuance of a Licensee's Practice:** On July 30, 2021, CBA published [notice](#) of its intent to add sections 54.3 and 54.4, Title 16 of the CCR to protect client confidentiality in the sale, transfer, or discontinuance of a licensee's practice. At its September 23, 2021 Board [meeting](#) [see [Agenda Item II.G.](#) and [Attachment 5](#)], Deanne Pearce (Assistant Executive Officer) explained that due to the nature of the proposals, all licensees must receive notice of the proposed changes, so a second public hearing is required. The [second public hearing](#) is scheduled for January 6, 2022 (see HIGHLIGHTS).

- **Attest Experience Form:** On October 26, 2021, OAL [approved](#) CBA's proposed amendments to section 12.5, Title 16 of the CCR, which updates and improves the Certificate of Attest Experience forms used to document an applicant's experience requirements. The Board initially published [notice](#) of its proposal on March 19, 2021. [see [26:2 CRLR 122](#)] This regulatory action becomes effective January 1, 2022.

- **Definition of Satisfactory Evidence for Educational Requirements:** On November 12, 2021, CBA published [notice](#) of its intent to amend section 2.8, Title 16 of the CCR, as set forth in the [proposed language](#). The proposed amendment would allow for applicants to obtain and submit certified transcripts directly to the CBA and would allow educational institutions to submit transcripts electronically. According to the [initial statement of reasons](#), this proposal is designed to streamline how the Board receives certified transcripts and may assist in decreasing the timeframe for processing the CPA Exam and CPA licensure applications. The 45-day public comment period expires on December 28, 2021, and a public hearing is set for the same date.

LEGISLATION

- [AB 298 \(Irwin\)](#), as amended June 17, 2021, is a CBA-sponsored bill that amends sections 5007, 5070, 5070.5, and 5094.3 of, and adds sections 5009.5 and 5093.5 to the Business and Professions Code to implement the Board's legislative proposals for 2021. Governor Newsom signed AB 298 on September 24, 2021 (Chapter 300, Statutes of 2021) (see HIGHLIGHTS).
- [AB 107 \(Salas\)](#), as amended September 2, 2021, and as it applies to CBA amends section 5132 and amends, repeals, and adds sections 115.6, 115.8, and 115.9 to the Business and Professions Code to grant temporary licenses to out-of-state licensed applicants who are married to an active-duty member of the United States military. The amendment to section 5132 clarifies that revenues from temporary licenses must be credited to the Accountancy Fund. Governor Newsom signed AB 107 on October 8, 2021 (Chapter 693, Statutes of 2021).
- [SB 607 \(Min\)](#), as amended September 3, 2021, and as it applies to the CBA, amends section 115.5 of the Business and Professions Code to require all boards within DCA, including CBA, to waive the licensure fee and the initial or original license fee charged by the Board for applicants who are married to, in a domestic partnership or other legal union with, an active duty member of the military. At its July 23, 2021 [meeting](#) (Agenda Item XV.B.3.i ([recording](#))), the CBA voted to support the bill. Governor Newsom signed SB 607 on September 28, 2021 (Chapter 367, Statutes of 2021).
- [SB 702 \(Limón\)](#), as amended September 3, 2021, and as it applies to the CBA, would have added section 1305 to the Government Code to require that on or before March 1, 2022, the Governor's office convene a working group to discuss and make recommendations on the most effective way to ensure the state's leadership on boards and commissions ensure diversity

in age, ethnicity, gender, gender identity, disability status, region, veteran status, and sexual orientation. On October 7, 2021, Governor Newsom [vetoed](#) the bill, stating that his office already makes an intentional effort to build a diverse and qualified pool of candidates for appointed positions. The Veto Message further noted that demographic information specified for reporting under the bill is optional and self-reported and, therefore, “would not accurately reflect the diversity of appointees.”

The following bills, reported in [Volume 26, No. 2 \(Spring 2021\)](#), died in committee or otherwise failed to be enacted in 2021: [SB 772 \(Ochoa Bogh\)](#), relating to prohibiting fines for minor violations; [AB 1026 \(Smith\)](#), relating to a 50% fee reduction for veterans applying for licensure; and [AB 225 \(Gray\)](#), relating to DCA Boards and military spouses.