

Legislative Analysis



CPA PEER REVIEW; EXPERIENCE

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Senate Bill 191 as passed by the Senate
Sponsor: Sen. Randy Richardville
House Committee: Banking and Financial Services
Senate Committee: Banking and Financial Institutions

First Analysis (2-21-07)

BRIEF SUMMARY: The bill would delay and phase-in the effective date of peer review requirements required by Public Act 278 of 2005 and clarify the experience requirement for CPA certification.

FISCAL IMPACT: There is no fiscal impact on the State of Michigan or its local units of government.

THE APPARENT PROBLEM:

Public Act 278 of 2005 amended the act that regulates certified public accountants to require any licensed firm and sole practitioner performing attest services (which generally means providing assurance to the public on financial statements) to participate in a peer review program to be established by departmental rules. This requirement was to begin March 1, 2007. In order to prevent the state and the administering entities from an overwhelming influx of new reviews all at once, the Michigan Association of CPAs (MACPA) and the Michigan State Board of Accountancy (MSBA) feel that a gradual phase-in of reviews is necessary.

In a separate matter, language specifying the education requirement for certification as a CPA needs clarification. In 1998, the education requirement for certification was changed from two years of qualifying experience to one year under the direction and supervision of a licensed CPA as specified in the act, but the new change was not set to take place until 2003. In 2005, the act was amended again and among other things, the old two-year education requirement—by then obsolete—should have been deleted. However, a drafting error only partially removed the obsolete provision. As a result, the act seems to require both two-years of qualifying experience and one year under the direction and supervision of a CPA. Legislation is needed to clarify the education requirement.

THE CONTENT OF THE BILL:

Senate Bill 191 would amend Article 7 (Public Accounting) of the Occupational Code (MCL 339.725 and 339.729) to delay and phase-in the effective date of peer review requirements that apply to licensed firms and sole practitioners. The bill also would delete a requirement that an applicant for a CPA certificate have two years of qualifying

experience, while retaining a requirement for one year of qualifying experience under the direction and supervision of a licensed CPA.

Peer Review. Under Article 7, beginning on March 1, 2007, each licensed firm and sole practitioner that performs attest services, including audits, reviews, and compilations that third parties rely on, must participate in a peer review program established by rule of the Department of Labor and Economic Growth (DLEG) and approved by the State Board of Accountancy. An applicant for renewal or relicensure must submit to DLEG proof of peer review obtained within the three years preceding the application. A firm or sole practitioner required to participate in a peer review program must notify DLEG within 30 days after receiving an adverse report or second modified peer review report.

Under the bill, these peer review requirements would become effective beginning on one of the following dates, instead of on March 1, 2007:

- March 1, 2008, for licensed firms and sole practitioners whose attest services include audits.
- March 1, 2009, for licensed firms and sole practitioners whose attest services include compilation with disclosures relied upon by third parties, or review, or both, but not audits.
- March 1, 2010, for licensed firms and sole practitioners whose attest services include compilation without disclosures relied upon by third parties, but not audits or any compilation with disclosures relied upon by third parties, or review, or both compilation with disclosures and review.

Experience Requirement. In addition, Article 7 requires an applicant for a certificate as a CPA to have two years of qualifying experience, as well as one year of qualifying experience under the direction and supervision of a licensed CPA. The bill would delete reference to the two-year requirement.

HOUSE COMMITTEE ACTION:

The House Committee on Banking and Financial Services did not adopt changes to the bill.

ARGUMENTS:

For:

Legislation enacted in 2005 requires, beginning this March 1st, that CPA firms and sole practitioners participate in a peer review program. Idaho successfully instituted a similar program using a "phase in" approach based on a firm's highest level of engagement. It has been requested by the Michigan Association of CPAs, with the support of the Michigan State Board of Accountancy, and the Michigan Department of Labor and Economic Growth that Michigan take a similar approach so as not to overwhelm the administering entities with an influx of new reviews all at the same time. The bill would delay the beginning of the peer review program by one year and then allow the peer

reviews to be phased-in over a three-year period, with enrollment the first year of firms that perform audits as their highest level of engagement. According to the MACPA, this is the most thorough type of engagement with the highest risk potential. Firms that perform reviews and/or compilations would be enrolled in year two, and firms that perform compilations without disclosures would be enrolled in the third and final year (2010). Since the new peer review program is mandated by current law to take effect in less than two weeks, timely passage of Senate Bill 191 is imperative.

The bill would also correct a technical problem created by a drafting error in Public Act 278 of 2005 that lists the required education experience needed for certification as a CPA as being both two years of qualified experience and one year of qualifying experience under the direction and supervision of a CPA. The latter is the correct requirement.

POSITIONS:

The Michigan Association of CPAs (MACPA) supports the bill. (2-20-07)

The Michigan Department of Labor and Economic Growth supports the bill. (2-20-07)

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