

Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

House Bill 328
Economic Matters

(Delegate Feldman)
Education, Health, and Environmental Affairs

Accountants - Regulation - Preparation of a Compilation of Financial Statements

This bill establishes, clarifies, and modifies the definitions of services that constitute the practice of certified public accountancy. The bill also identifies the conditions under which a nonlicensed individual may prepare a compilation and requires the State Board of Public Accountancy to specify, by regulation, standard language for a disclosure statement regarding exemption from peer review requirements under specified circumstances.

Fiscal Summary

State Effect: None. The change is technical in nature and does not directly affect governmental finances.

Local Effect: None.

Small Business Effect: Potential meaningful for small accountancy firms that may no longer be required to undergo triennial peer reviews.

Analysis

Current Law/Background: The Department of Labor, Licensing, and Regulation (DLLR) advises that the bill's reestablishment of a definition of "compilation" and the modifications of the definition of "practice certified public accountancy" clarify which licensees are required to undergo a peer review.

A peer review is a periodic independent review of a firm's quality control system in accounting and auditing. The purpose of this review is to determine whether a firm's auditing practices conform to professional standards. A peer review examines whether a

firm can demonstrate the competencies necessary for performing accounting, auditing, and attestation engagements in accordance with professional, State, and/or federal standards.

Firms or individual certified public accountants (CPAs) who offer certain accountancy services to the public must undergo an independent peer review once every three years in order to renew a license and to maintain good standing. The standards followed for peer review must be equally stringent to those set forth by the American Institute of Certified Public Accountants (AICPA).

Peer reviews are a requirement of license or permit renewal in most states, including Virginia and Pennsylvania. According to DLLR, states generally follow the standards set forth by AICPA. However, not all states – like Maryland – adopt peer review by writing the standards into statute. Some incorporate the standards by reference in their regulatory code. Maryland chose to put the standards in writing and not to explicitly follow AICPA's standard. State guidelines for peer review must be equally stringent to AICPA standards.

Peer review works in conjunction with continuing professional education by requiring a licensee of a firm who performs compilations, reviews, and audits to demonstrate knowledge and competence to provide quality certified public accounting services.

Small Business Effect: Small CPA businesses may benefit by having a clearer definition of what constitutes the practice of certified public accountancy in order to determine whether or not they are required to undergo a peer review. Businesses that only offer certain compilations are not required to undergo a peer review under the bill. DLLR advises that the change may reduce expenses for such businesses by \$200 to \$1,000 every three years.

Additional Information

Prior Introductions: None.

Cross File: SB 370 (Senator Conway) - Education, Health, and Environmental Affairs.

Information Source(s): Department of Labor, Licensing, and Regulation; Department of Legislative Services

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