

Department of Legislative Services
 Maryland General Assembly
 2005 Session

FISCAL AND POLICY NOTE

House Bill 1223 (Chairman, Economic Matters Committee)
 (By Request – Departmental – Labor, Licensing and Regulation)

Economic Matters Education, Health, and Environmental
 Affairs

State Board of Public Accountancy - Mandatory Peer Review

This departmental bill requires firms or individual certified public accountants (CPAs) who offer specified CPA services to the public to have an independent peer review once every three years as a condition of license renewal and to maintain their license in good standing. The bill requires firms and CPAs to affirm the most recent peer review to the State Board of Public Accountancy at the time of permit or license renewal beginning October 1, 2008. The bill establishes standards related to the types of peer reviews, the standards to be followed by persons conducting a peer review, and the grounds for revoking the approval for a person to perform a peer review. The bill also requires a peer reviewer to report to the board firms and individuals who receive two consecutive modified peer review reports (significant deficiency in quality control or professional standards) or an adverse report (a severe deficiency in quality control or professional standards). The bill establishes procedures for disciplinary or corrective action for firms or individuals receiving such reports.

Fiscal Summary

State Effect: General fund expenditure increase of \$20,000 in FY 2006 for computer reprogramming. Revenues would not be affected.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	20,000	0	0	0	0
Net Effect	(\$20,000)	\$0	\$0	\$0	\$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: The Department of Labor, Licensing, and Regulation (DLLR) has determined that this bill has a meaningful impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Current Law: There is no peer review program for CPAs in Maryland.

Background: 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. Generally performed once every three years, 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.

Peer reviews are a requirement of license or permit renewal in 36 states, including Virginia and Pennsylvania. Peer review works in conjunction with continuing professional education by requiring a licensee of a firm who performs compilations, reviews, and audits to demonstrate to state regulatory boards that they have the knowledge and competence to provide quality certified public accounting services.

State Fiscal Effect: In order to implement a peer review process, DLLR would incur a one-time general fund expenditure of \$20,000 in fiscal 2006 to modify its CPA license database and Internet license renewal system (E-licensing).

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 15, 2005
n/ljm

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