

SENATE BILL 204

C2

9lr0147

By: **Chair, Education, Health, and Environmental Affairs Committee (By Request – Departmental – Labor, Licensing and Regulation)**

Introduced and read first time: January 23, 2009

Assigned to: Education, Health, and Environmental Affairs

A BILL ENTITLED

1 AN ACT concerning

2 **State Board of Public Accountancy – Required Peer Reviews**

3 FOR the purpose of expanding the kinds of services performed by a licensed certified
4 public accountant that require a system review or an engagement review;
5 repealing a requirement for a review report for certain licensed certified public
6 accountants; requiring, as a condition for serving as a team captain of a system
7 review, a peer reviewer to have and maintain ownership or management of a
8 firm or comparable responsibility; repealing and adding certain defined terms;
9 and generally relating to system and engagement reviews in connection with
10 the practice of certified public accountancy.

11 BY repealing and reenacting, with amendments,
12 Article – Business Occupations and Professions
13 Section 2–401(b), 2–4A–01, 2–4A–04, and 2–4A–05
14 Annotated Code of Maryland
15 (2004 Replacement Volume and 2008 Supplement)

16 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF
17 MARYLAND, That the Laws of Maryland read as follows:

18 **Article – Business Occupations and Professions**

19 2–401.

20 (b) A firm that does not have an office in this State may perform attest
21 services as defined in § 2–101(c)(2) or § [2–4A–01(c)] **2–4A–01(B)** of this title for a
22 client with a home office in this State without a permit if the firm:

23 (1) meets the application and peer review requirements under §§
24 2–402, 2–402.1, 2–403, and 2–4A–02 of this title; and

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



1 (2) performs services through an individual with a practice privilege
2 under § 2-321 of this title.

3 2-4A-01.

4 (a) In this section the following words have the meanings indicated.

5 (b) ["Adverse report" means a report of a peer reviewer that indicates a
6 severe deficiency in quality control or professional standards in the individual or firm
7 being reviewed.

8 (c)] "Compilation" means a presentation of information in the form of a
9 financial statement that:

10 (1) is performed in accordance with the statements on standards for
11 accounting and review services of the American Institute of Certified Public
12 Accountants; and

13 (2) is the representation of management without an undertaking on
14 the part of the preparer to express any assurance on the statements.

15 [(d)] (C) "Engagement review" means a peer review that evaluates whether
16 there is a reasonable basis for expressing limited assurance that:

17 (1) financial statements with which the individual or firm is
18 associated conform in all material respects with professional standards; and

19 (2) reports and internal documentation of the work performed by the
20 individual or firm conforms with professional standards.

21 (D) **"FAIL" MEANS, IN CONNECTION WITH A REPORT OF A PEER**
22 **REVIEWER, ONE OR MORE SIGNIFICANT DEFICIENCIES IN PERFORMING OR**
23 **REPORTING IN CONFORMITY WITH PROFESSIONAL STANDARDS IN THE**
24 **INDIVIDUAL OR THE FIRM BEING REVIEWED.**

25 [(e) "Modified report" means a report of a peer reviewer that indicates a
26 significant deficiency in quality control or professional standards in the individual or
27 firm being reviewed.]

28 [(f)] (E) "Peer review" means a study, appraisal, or review of one or more
29 aspects of the professional work of an individual or firm performed by a person
30 licensed as a certified public accountant.

31 (F) **"REPORT INDICATING PASS WITH DEFICIENCIES" MEANS A REPORT**
32 **OF A PEER REVIEWER THAT INDICATES A SIGNIFICANT DEFICIENCY IN QUALITY**

1 **CONTROL OR PROFESSIONAL STANDARDS IN THE INDIVIDUAL OR FIRM BEING**
2 **REVIEWED.**

3 (g) ["Report review" means a peer review that evaluates whether financial
4 statements and related accountant's reports prepared by the individual or firm being
5 reviewed appear to conform with professional standards in all material respects.

6 (h)] "Review" means the analysis of a financial statement that:

7 (1) is performed in accordance with the statements on standards for
8 accounting and review services of the American Institute of Certified Public
9 Accountants; and

10 (2) provides a licensee with a reasonable basis for expressing limited
11 assurance that there are no material modifications that should be made to the
12 statement in order for it to be in accordance with generally accepted accounting
13 principles, or, if applicable, with any other comprehensive basis of accounting.

14 [(i)] (H) "System review" means a peer review evaluating whether there is
15 reasonable assurance that:

16 (1) the system of quality control of the individual or firm being
17 reviewed is designed and operated in such a manner as to meet professional
18 standards;

19 (2) financial statements with which the licensee or firm is associated
20 conform in all material respects with professional standards; and

21 (3) reports and internal documentation of the work performed by the
22 licensee or firm conforms with professional standards.

23 2-4A-04.

24 (a) A system review is required for a licensee or permit holder that performs
25 any of the following services:

26 (1) engagements governed by the Statements on Auditing Standards
27 of the American Institute of Certified Public Accountants; or

28 (2) **ENGAGEMENTS GOVERNED BY THE GOVERNMENT AUDITING**
29 **STANDARDS ISSUED BY THE U.S. GOVERNMENT ACCOUNTABILITY OFFICE;**

30 [(2)] (3) examinations of prospective financial information under:

31 (i) the Statements on Standards for Attestation Engagements
32 of the American Institute of Certified Public Accountants; or

1 (ii) the government auditing standards issued by the U.S.
2 Government Accountability Office; OR

3 **(4) AUDITS OF ISSUERS NOT REGISTERED WITH THE U.S.**
4 **SECURITIES AND EXCHANGE COMMISSION THAT ARE PERFORMED UNDER**
5 **STANDARDS OF THE PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD.**

6 (b) An engagement review is required for a licensee or permit holder not
7 required to have a system review that performs any of the following services:

8 [(1) engagements in accordance with the Statements on Standards for
9 Accounting and Review Services of the American Institute of Certified Public
10 Accountants; or

11 (2) review engagements in accordance with the Statements on
12 Standards for Attestation Engagements of the American Institute of Certified Public
13 Accountants.]

14 **(1) REVIEW OF HISTORICAL FINANCIAL STATEMENTS IN**
15 **ACCORDANCE WITH THE STATEMENTS ON STANDARDS FOR ACCOUNTING AND**
16 **REVIEW SERVICES OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC**
17 **ACCOUNTANTS;**

18 **(2) COMPILATION OF HISTORICAL FINANCIAL STATEMENTS WITH**
19 **DISCLOSURES PERFORMED UNDER THE STATEMENTS ON STANDARDS FOR**
20 **ACCOUNTING AND REVIEW SERVICES OF THE AMERICAN INSTITUTE OF**
21 **CERTIFIED PUBLIC ACCOUNTANTS;**

22 **(3) COMPILATION OF HISTORICAL FINANCIAL STATEMENTS THAT**
23 **OMIT SUBSTANTIALLY ALL DISCLOSURES PERFORMED UNDER THE**
24 **STATEMENTS ON STANDARDS FOR ACCOUNTING AND REVIEW SERVICES OF**
25 **THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS; OR**

26 **(4) ENGAGEMENTS PERFORMED UNDER THE STATEMENTS ON**
27 **STANDARDS FOR ATTESTATION ENGAGEMENTS OF THE AMERICAN INSTITUTE**
28 **OF CERTIFIED PUBLIC ACCOUNTANTS OTHER THAN THE EXAMINATION OF**
29 **PROSPECTIVE FINANCIAL STATEMENTS.**

30 [(c) A report review is required for a licensee or permit holder that is not
31 required to have an engagement review and issues reports only on compilations
32 omitting all disclosures.]

1 (a) Prior to conducting a peer review, an individual must be approved by the
2 Board.

3 (b) In order to receive approval from the Board, a peer reviewer shall:

4 (1) have and maintain an active license as a certified public
5 accountant in this or any other state;

6 (2) possess a level of knowledge of applicable professional standards
7 acceptable to the Board;

8 (3) possess at least 5 years recent experience in the practice of public
9 accounting;

10 (4) [have and maintain ownership or management of a firm, or
11 comparable responsibility;

12 (5)] have received [an unmodified] A PASSING report on the most
13 recent peer review of the prospective peer reviewer; and

14 [(6)] (5) complete an appropriate training course as determined by
15 the Board.

16 (c) **IN ORDER TO SERVE AS A TEAM CAPTAIN OF A SYSTEM REVIEW, A
17 PEER REVIEWER MUST HAVE AND MAINTAIN OWNERSHIP OR MANAGEMENT OF A
18 FIRM OR COMPARABLE RESPONSIBILITY.**

19 [(c)] (D) A peer reviewer shall have no connection to the licensee or permit
20 holder being reviewed that might impair the peer reviewer's independence.

21 [(d)] (E) A peer reviewer shall:

22 (1) prepare a report of findings in accordance with the standards for
23 performing and reporting on peer reviews of the American Institute of Certified Public
24 Accountants; and

25 (2) maintain the report for a period of 3 years.

26 [(e)] (F) A peer reviewer shall provide a copy of the report to the Board only
27 if the licensee or permit holder being reviewed has:

28 (1) been directed to take corrective action and has failed to satisfy the
29 peer reviewer that such action has been completed in a timely manner;

30 (2) received a second consecutive [modified report] **REPORT**
31 **INDICATING PASS WITH DEFICIENCIES;** or

1 (3) received [an adverse] **A FAILING** report.

2 [[f)] **(G)** A peer reviewer shall comply with all Board regulations and
3 directives regarding the peer review process.

4 [[g)] **(H)** The Board may revoke its approval of a peer reviewer under this
5 section if the peer reviewer:

6 (1) violates any provision of this title;

7 (2) violates any regulation adopted by the Board; or

8 (3) is sanctioned by any state board of accountancy or any unit of
9 State or federal government.

10 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect
11 June 1, 2009.