Department of Legislative Services

Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 204 (Chair, Education, Health, and Environmental Affairs Committee)(By Request - Departmental - Labor, Licensing and Regulation)

Education, Health, and Environmental Affairs Economic Matters

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State Board of Public Accountancy - Required Peer Reviews

This departmental bill modifies governing standards and procedures for peer reviews in the State for licensees and firms performing certified public accountancy services. The changes reflect revised standards adopted by the American Institute of Certified Public Accountants (AICPA).

The bill takes effect June 1, 2009.

Fiscal Summary

State Effect: The change is procedural in nature and does not directly affect governmental finances.

Local Effect: None.

Small Business Effect: The Department of Labor, Licensing, and Regulation (DLLR) has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Bill Summary: The bill requires a system review of individuals or firms that perform engagements governed by the U.S. Government Accountability Office, and for licensees who conduct audits of issuers not registered with the U.S. Securities and Exchange

Commission performed under the standards of the Public Company Accounting Oversight Board.

The services performed by an individual or firm that would require an engagement review are modified to include the following activities conducted in accordance with AICPA standards: reviews of historical financial statements; compilations of historical financial statements with or without disclosures; and engagements for attestation services other than the examination of prospective financial statements.

The bill removes the requirement that an individual maintain ownership or management of a firm or have comparable responsibility in order to conduct a peer review. However, the bill maintains these criteria for an individual serving as a "team captain" of a system review.

The bill changes the terminology used to describe the outcome of a peer review; the term "fail" replaces "adverse report" and "report indicating pass with deficiencies" replaces "modified report." The bill also deletes the report review.

Current Law: 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 AICPA. An individual or firm may be required to undergo a system review, engagement review, or report review.

System reviews are required of licensees or permit holders who perform engagement services governed by the Statements on Auditing Standards of AICPA and for examinations of some prospective financial statements. System reviews determine whether an individual or firm's financial statements, reports and internal documentation, and overall system of quality control are designed and operated to meet professional standards.

Engagement reviews perform a similar function but do not evaluate an individual or firm's quality control system. Engagement reviews are focused on an individual or firm's specific work (*i.e.*, engagements).

The report review evaluates whether financial statements and related reports conform to professional standards. The report review is required only of individuals or firms that issue reports on compilations omitting all disclosures.

Individuals who conduct peer reviews are approved by the State Board of Public Accountancy. To qualify, an individual must have been a licensed CPA for at least five years; demonstrate knowledge of professional standards; maintain ownership, management, or similar responsibility of a firm; be in good standing with the board; and complete a training course.

If a peer reviewer determines that a licensee or permit holder is not in compliance with professional standards, the peer reviewer can order the individual or firm to take corrective action. Reviewers are required to notify the board if an adverse report or two consecutive modified reports are issued or if ordered corrective action is not taken in a timely manner. The board can order violators to complete additional continuing education requirements or undergo a peer review more frequently. Egregious violations may result in suspension or revocation of a license and/or fines of up to $5,000 per offense.

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 44 states, including Virginia and Pennsylvania. According to DLLR, most of these states follow the standards set forth by AICPA. However, not all states – like Maryland – adopt peer review by writing the standards into statute. Some, for instance, incorporate the standards by reference in regulatory code. The State chose to put the standards in writing and not to explicitly follow AICPA's standard; State guidelines for peer review must be equally stringent.

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.

DLLR advises that the bill brings the current law into congruency with the new standard for performing peer reviews as established by AICPA that became effective on January 1, 2009. The existing statutory text is based on the standards for conducting peer reviews that these new standards supersede.

The Maryland Association of Certified Public Accountants (MACPA) – the peer review program approved by the board – evaluated the impact of the AICPA changes. MACPA advises that the new standards do not appear to create an overly burdensome process or result in a significant increase in cost to licensees and firms.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): American Institute of Certified Public Accountants; Department of Labor, Licensing, and Regulation; Department of Legislative Services

Fiscal Note History: First Reader - February 4, 2009
ncs/mcr Revised - Clarification - March 28, 2009

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: State Board of Public Accountancy – Required Peer Reviews

BILL NUMBER: SB 204

PREPARED BY: Department of Labor, Licensing, and Regulation

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

__X__ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

___ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The proposed legislation will have no impact on small business in Maryland.