

SCOPE OF PRACTICE FOR PUBLIC ACCOUNTANTS

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House Bill 5192 as introduced
Sponsor: Rep. Chris Afendoulis
Committee: Regulatory Reform
Complete to 2-3-16

Analysis available at
<http://www.legislature.mi.gov>

(Public Act 76 of 2016)

SUMMARY:

House Bill 5192 would amend Sections 720 and 728 within Article 7 of the Occupational Code, which deals with the licensing of certified public accountants and CPA firms.

Section 720 contains definitions. Three definitions would be amended.

Attest

The definition of "attest" in the act currently means providing the following services:

- Any audit or other engagement to be performed in accordance with the statements on auditing standards.
- Any review of a financial statement to be performed in accordance with the statements on standards for accounting and review services.
- Any examination of prospective financial information to be performed in accordance with the statements on standards for attestation engagements.
- Any engagement to be performed in accordance with the public company accounting oversight board auditing standards.

The bill would amend the term in two ways.

- (1) The bill specifies that the term "attest" does not include providing a compilation. The term "compilation" is presently defined as "providing a service to be performed in accordance with statements on standards for accounting and review services that are presenting, in the form of financial statements, information that is the representation of management or owners without undertaking to express any assurance on the statements."
- (2) Under the bill, the term "attest" would also include an examination, review, or agreed-upon procedures engagement to be performed in accordance with the statements on standards for attestation engagements, other than an engagement described in bullet three above; that is one that involves an examination of prospective financial information performed in accordance with the statements on standards for attestation engagements.

Practice of public accounting

This term would be rewritten. It is currently defined as rendering, or offering to render, an opinion on, or attesting or offering to attest to, the reliability of a representation or estimate,

including, but not limited to, the giving of an opinion in substance that financial information as set forth presents fairly the condition of the entity reviewed or audited, in regard to an entity embracing one or more of the following:

- Financial information.
- Facts respecting compliance with conditions established by law or contract, including, but not limited to, a statute, ordinance, regulation, grant, loan, or appropriation.
- The scope of the accounting procedures rendered in connection with the presentation of a financial statement.

The underlined portions above would be struck and the definition would be rewritten (with new language *in italics*) to read:

The rendering, or offering to render, an opinion on, or attesting or offering to attest to, the reliability of a representation or estimate, including, but not limited to, the giving of an opinion in substance that *one or more of the following types of information concerning the entity that is the subject of the opinion present fairly the condition of the entity:*

- Financial *or other* information about which the opinion is given.
- Facts respecting *the entity's* compliance with conditions established by law or contract, including, but not limited to, a statute, ordinance, regulation, grant, loan, or appropriation.
- The scope of the accounting procedures rendered in connection with the presentation of *the entity's* financial statement.

Report

The definition of "report" would be modified to replace references to "financial statements" with references instead to "attest and compilations services" or with "attested information or compiled financial statements."

Section 728

This section deals with when firms must apply for and obtain a Michigan license to engage in the practice of public accounting. A firm must obtain a license if (1) it establishes or maintains an office in the state; or (2) an individual who represents the firm performs certain engagements (those identified in the first, third, and fourth bullets in the definition of "attest" described earlier).

Section 728 says that a firm that is not required to obtain a Michigan license may perform a review engagement in accordance with the statements on standards for accounting and review services or a compilation for a client that has a home office in Michigan, can use the title CPA or CPA firm, and can practice public accountancy as authorized under the statute without a license if it meets certain statutory conditions (described later).

House Bill 5192 adds that such a firm could also perform an examination, a review, or agreed-upon procedures engagement in accordance with the standards for attestation statements, other than an engagement that involves an examination of prospective financial

information performed in accordance with the statements on standards for attestation engagements.

[The conditions that such a firm must meet are:

- At least a simple majority of the equity and voting rights of the firm are held by individuals licensed in good standing as CPAs in Michigan or another state, or the equivalent in another licensing jurisdiction acceptable to the State Board of Accountancy. Non-CPA owners must be active individual participants in the firm or its affiliated entities. An individual with practice privileges under Section 727a [which covers credentialed out-of-state practitioners] who performs services for which a firm license is otherwise required is not required to obtain a certificate or a registration or license in Michigan.
- All attest and compilation services provided by the firm in this state are performed under the supervision of an individual licensed and in good standing as a CPA in this state or another state or the equivalent in another licensing jurisdiction acceptable to the board.
- Each firm and sole practitioner that performs an audit, review, or compilations that are relied upon by third parties participates in a peer review program established by rule of the department and approved by the board.
- It performs services through an individual who holds practice privileges due to a valid license as a certified public accountant from another licensing jurisdiction.]

BACKGROUND INFORMATION:

A "Certified public accountant" means an individual who is either:

- Qualified by education, examination, and experience to engage or offer to engage in the practice of public accounting as evidenced by the issuance of a certificate as a certified public accountant and a license or registration in accordance with the standards set within the Occupational Code.
- An individual whose principal place of business is not in this state and who satisfies certain credentialing requirements.

An individual who wishes to only use the title of CPA is required to register under the Code. An individual who wishes to use the title AND engage in the practice of public accounting must apply for licensure in accordance with Article 7.

FISCAL IMPACT:

HB 5192 would not have a significant fiscal impact on the state or local units of government.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.