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BILL ANALYSIS

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House Bill 5236 (Substitute H-2 as passed by the House)
Sponsor: Representative Brandt Iden
House Committee: Regulatory Reform
Senate Committee: Regulatory Reform

Date Completed: 2-28-18

CONTENT

The bill would amend Article 7 (Public Accounting) of the Occupational Code to do the following:

-- Revise continuing education requirements for certified public accountants (CPAs) by, among other things, requiring education in professional ethics and in State statutes and rules related to public accountancy, and allowing a licensee to carry over excess earned continuing education hours to the next year.
-- Permit the Director of the Department of Licensing and Regulatory Affairs to promulgate rules governing educational requirements that would qualify an applicant to sit for the Uniform CPA Exam.
-- Delete a requirement that a firm obtain a license under Article 7 if an individual representing the firm performs certain services for a client that has its home office in Michigan.
-- Allow a firm that is not required to obtain a Michigan license to perform certain services and practice public accountancy if the firm were authorized to perform those services in the licensing jurisdiction where an individual with practice privileges had his or her principal place of business, in addition to meeting current requirements.
-- Allow a firm that is not required to obtain a Michigan license, and not seeking to practice specified public accountancy services, to perform attest services, in addition to other professional services as currently allowed; and add to the conditions that such a firm must meet.

The bill would take effect 90 days after enactment.

Continuing Education

Currently, as a condition of license renewal, an individual licensed under Article 7 must complete at least 40 hours of continuing education for each year since the issuance of the original license or the last renewal. The bill, instead, would require a licensee to successfully complete at least 40 hours of continuing education for each year of a license cycle. A licensee would not be required to meet the continuing education requirements for a period of 12 months, beginning on the date of his or her original license. ("License cycle" would mean the term of a license issued under Article 7. A license cycle under Article 7 is two years.)

Article 7 provides that, of the 40 hours of continuing education, the State Board of Accountancy may not require more than eight to be in the areas of auditing and accounting. Under the bill, instead, at least eight of the 40 hours would have to be in the areas of auditing and accounting, but the Board could not require completion of more than eight hours in those areas in one year of a license cycle.

Subject to the following provision, the bill would require at least two of the 40 hours for each year of a license cycle to be in the area of professional ethics, although the Board could not require completion of more than two hours of education in that area in one year of a license cycle.

The content of one hour of the four hours in professional ethics required in a two-year license cycle would have to be in State statutes and administrative rules applicable to public accountancy. A statewide professional association of CPAs approved by the Department of Licensing and Regulatory Affairs (LARA) would have to create the content for this hour.

A licensee who earned more than the required 40 hours of continuing education in a year would be allowed to carry over the excess hours to the next year, but not to any subsequent year, subject to all of the following:

-- The maximum number of excess hours a licensee could carry over would be 40.
-- A licensee could not carry over more than eight hours to meet the minimum accounting and auditing education requirements for the next year.
-- A licensee could not carry over more than two hours to meet the minimum professional ethics requirement for the next year.
-- A licensee could not carry over more than one hour of education in public accountancy statutes and administrative rules to meet the minimum ethics requirements for the next license cycle.

Except as provided below, a nonresident would have to certify in his or her renewal application that he or she had met the continuing education requirements described above.

A nonresident licensee who was applying for renewal of his or her license would be considered to have met these requirements if he or she met the continuing education requirements for renewal of an individual license in the state where his or her principal place of business was located. If that state did not have continuing education requirements for license renewal, the nonresident would have to comply with all continuing education requirements for renewal under Article 7.

On request, a licensee would have to give LARA one of the following, as applicable:

-- For a licensee with a principal place of business located in this State, proof acceptable to the Department that he or she met the continuing education requirements for license renewal in Michigan.
-- For a nonresident licensee, proof acceptable to LARA, from the state board or other licensing authority in the licensing jurisdiction where his or her principal place of business was located, that the licensee met the continuing education requirements for renewal in that jurisdiction.

The bill would delete a provision that allows the State Board of Accountancy to make exceptions from the continuing education requirements for reasons of health, military service, or other good cause.

<u>Out-of-State Firm</u>

Currently, a firm is required to obtain a Michigan license under Article 7 in order to engage in the practice of public accounting in the State if either of the following applies:

-- The firm establishes or maintains an office in the State.
-- An individual who represents the firm performs various types of services for any client that has its home office in Michigan.

(Those services are 1) an audit or other engagement to be performed in accordance with the statements on auditing standards; 2) an examination of prospective financial information to be performed in accordance with the statements on standards for attestation engagements; and 3) an engagement to be performed in accordance with the public company accounting oversight board auditing standards.)

The bill, instead, would require a firm that established or maintained an office in Michigan to obtain a license under Article 7 in order to engage in the practice of public accounting in the State.

Currently, 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, perform an engagement, other than an examination of prospective financial information, a review, or agreed-upon procedures engagement in accordance with the statements on standards for attestation engagements, or perform a compilation for a client that has its home office in Michigan, may use the title "CPA" or "CPA firm", and may practice public accountancy as authorized without a license, only if it meets both of the following conditions:

-- It has met a requirement concerning ownership of the firm; a requirement that attest and compilation services provided by the firm in Michigan are performed under the supervision of a licensed CPA; and a requirement regarding peer review.
-- It performs those services through an individual who has practice privileges under Section 727a (which establishes criteria for a licensed CPA from another licensing jurisdiction to practice in Michigan without a certificate, license, or permit under Article 7).

Under the bill, instead, a firm that was not required to obtain a Michigan license could perform a review engagement in accordance with the statements on standards for accounting and review services, perform an engagement, a review, or agreed-upon procedures engagement in accordance with the statements on standards for attestation engagements, or perform a compilation for a client in this State, if it met the current requirements and the firm were authorized or permitted to perform those services in the licensing jurisdiction where the individual with practice privileges had his or her principal place of business.

Currently, a firm that is not required to obtain a Michigan license and that is not seeking to practice as described above may perform other professional services within the practice of public accountancy while using the title "CPA" or "CPA firm" only if it meets both of the following requirements:

-- It performs those services through an individual with practice privileges under Section 727a.
-- It is authorized to perform those services in the licensing jurisdiction where the individual with practice privileges has his or her principal place of business.

Under the bill, the firm could perform attest services or any other professional services. In addition to satisfying the current conditions, the firm would have to meet a requirement concerning firm ownership; a requirement that attest and compilation services provided by the firm in Michigan are performed under the supervision of a licensed CPA; and a peer review requirement.

MCL 339.720 et al. Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would have a minor negative impact on the Department of Licensing and Regulatory Affairs. The bill would have no impact on local units of government. The bill would allow out-of-State accounting firms to perform attest services in Michigan without obtaining a Michigan license. This could result in a small reduction in license fee revenue from out-of-State accounting firms. Additionally, the bill would allow the Department to promulgate rules regarding educational requirements for licensees. There are some minor costs associated with the rule-making process that the Department typically absorbs.

Fiscal Analyst: Michael Siracuse

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