

**HOUSE OF REPRESENTATIVES  
FINAL BILL ANALYSIS**

<b>BILL #:</b>	CS/HB 39	<b>FINAL HOUSE FLOOR ACTION:</b>	
<b>SPONSOR(S):</b>	Business & Professional Regulation Subcommittee; Raulerson; Ford and others	116 Y's	0 N's
<b>COMPANION BILLS:</b>	(CS/CS/SB 328)	<b>GOVERNOR'S ACTION:</b>	Approved

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**SUMMARY ANALYSIS**

CS/HB 39 passed the House on April 18, 2013, as CS/CS/SB 328, as amended. The Senate concurred in the amendment, and subsequently passed the bill, as amended, on May 1, 2013.

The bill provides for the Department of Business and Professional Regulation (Department) to spend up to \$200,000 annually from the Certified Public Accountant Education Minority Assistance Program to award scholarships. The statute currently allows the Department to spend up to \$100,000 per year from the Professional Regulation Trust Fund on such scholarships. In addition, the bill allows the Department to disburse scholarship funds up to two times per year rather than the present annual disbursement of funds. Furthermore, the bill changes the name of the Certified Public Accountant Education Minority Assistance Program to the Clay Ford Scholarship Program.

The bill also requires firms that provide certain services to enroll in a peer review program by January 1, 2015. The bill provides definitions and directs the Board of Accountancy (Board) to adopt rules establishing minimum standards for both peer review programs and for organizations that administer peer review programs.

Finally, the bill amends s. 473.313(3), F.S., to modify a date reference from December 31 to January 1 regarding delinquent licenses.

Contingent upon the passage of this bill, the 2013-2014 General Appropriations Act appropriates an additional \$100,000 to the Department to expand the scholarship program. See fiscal comments.

The bill was approved by the Governor on June 14, 2013, ch. 2013-167, L.O.F., and will become effective on July 1, 2013.

## I. SUBSTANTIVE INFORMATION

### A. EFFECT OF CHANGES:

#### Current Situation

##### *Certified Public Accountant Education Minority Assistance Program*

The Certified Public Accountant (CPA) Education Minority Assistance Program provides scholarships for fifth year minority students seeking to become certified public accountants.<sup>1</sup> All moneys used to provide scholarships under the program are funded by a portion of existing license fees, as set by the board, not to exceed ten dollars per license.<sup>2</sup> The funds for the program are held in the Professional Regulation Trust Fund, to be distributed by the Board of Accountancy (the Board).<sup>3</sup> The Board may disburse up to \$100,000 for the program annually, with one disbursement occurring per year.<sup>4</sup>

##### *Peer Review*

A “peer review” is a practice-monitoring program wherein an independent evaluator audits a firm’s accounting and auditing practice and its related quality-control systems in order to ensure that the firm is complying with professional standards.<sup>5</sup> Currently, forty-eight states statutorily require CPA firms to participate in a peer review program; however, Florida does not have a statutory peer review requirement for its CPA firms.<sup>6</sup>

Despite the fact that participation in a peer review program is not statutorily required in Florida, many of the state’s firms are still required to undergo peer reviews due to their membership in the American Institute of Certified Public Accountants (AICPA). Since 1988, the AICPA has required its members that are engaged in the practice of public accounting and auditing to undergo a peer review once every three years.<sup>7</sup> The result of an AICPA peer review is not disclosed to the public; the general public may only ascertain whether a specific firm is enrolled in the peer review program.<sup>8</sup>

As it relates to the AICPA peer review program, an “accounting and auditing practice” includes all of a CPA firm’s engagements that are performed under:

- The Statements on Auditing Standards (SaSs);
- The Statements on Standards for Accounting and Review Services (SSARS);
- The Statements on Standard for Attestation Engagements (SSAEs) and Government Auditing Standards (the Yellow Book), issued by the U.S. General Accounting Office (GAO); and
- Audits of non-SEC issuers performed pursuant to the standards of the Public Company Accounting Oversight Board (PCAOB).<sup>9</sup>

As such, Florida CPA firms that perform these types of services and are members of the AICPA are required by the AICPA’s bylaws to participate in its peer review program once every three years.

#### Effect of Changes

##### *Certified Public Accountant Education Minority Assistance Program*

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<sup>1</sup> Section 473.3065(1), Florida Statutes.

<sup>2</sup> Section 473.3065(2), Florida Statutes.

<sup>3</sup> Id.

<sup>4</sup> Id.

<sup>5</sup> AICPA Peer Review Program Manual, Appendix A, on file with Business & Professional Regulation Subcommittee.

<sup>6</sup> Florida and Delaware are the only states without a statutory peer review requirement. *See*: AICPA Peer Review Program Annual Report on Oversight 2012, Exhibit 1, on file with Business & Professional Regulation Subcommittee.

<sup>7</sup> <http://www.aicpa.org/Advocacy/State/Pages/PeerReview.aspx> (Last accessed on March 4, 2013).

<sup>8</sup> AICPA Peer Review Program Manual, page 6, on file with Business & Professional Regulation Subcommittee.

<sup>9</sup> AICPA Peer Review Program Manual, page 2, on file with Business & Professional Regulation Subcommittee.

The bill amends s. 473.3065, F.S., to permit the Department to spend up to \$200,000 annually on the minority scholarships program. In addition, the bill allows the Department to disburse funds two times per year. Finally, the bill changes the name of the CPA Education Minority Assistance Program to the Clay Ford Scholarship Program.

#### *Peer Review*

The bill amends s. 473.311, F.S., to require the state's CPA firms that engage in the practice of public accounting as defined by s. 473.302(8)(a), F.S., with two exceptions, to enroll in a peer review program.

Section 473.302(8)(a), F.S., defines the practice of public accounting as offering to perform, or performing for the public, one or more types of services involving:

- The expression of an opinion on financial statements;
- The attestation, as an expert in accountancy, as to the reliability or fairness of presentation of financial information;
- The utilization of any form of opinion or financial statements that provide a level of assurance;
- The utilization of a disclaimer of opinion which conveys an assurance of reliability as to matters not specifically disclaimed; or
- The expression of an opinion on the reliability of an assertion by one party for use by a third party.

The bill specifically exempts CPA firms that only engage in the practice of providing compilation or review services from having to comply with the peer review requirement. Firms that provide compilation or review services in addition to any of the other services listed in s. 473.302(8)(a), F.S., would still have to comply with the peer review requirement.

Moreover, firms that are not involved in the services described in s. 473.302(8)(a), F.S., and that instead limit their practice to tax or consulting services would not be required to undergo a peer review. The peer review requirement would also not apply to CPA's who practice in private industry, education, and government, as the requirement only applies to CPA firms in public practice.

Further, the bill creates s. 473.3125, F.S., to create definitions and to establish a peer review program, which is defined as the "study, appraisal, or review by one or more independent certified public accountants of one or more aspects of the professional work of a licensee." The section directs the Board to adopt rules establishing minimum standards for both peer review programs and for organizations that administer peer review programs. Moreover, the section allows the Board to establish a peer review oversight committee, for the purpose of maintaining oversight of the license renewal requirements set forth in s. 473.311(2), F.S.

The requirement that certain CPA firms undergo a peer review would begin on July 1, 2015.

Finally, the bill amends s. 473.313(3), F.S., to modify a date reference from December 31 to January 1 regarding delinquent licenses.

## **II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT**

### **A. FISCAL IMPACT ON STATE GOVERNMENT:**

#### **1. Revenues:**

None.

2. Expenditures:

The bill allows the department to spend up to \$200,000 per year on the Certified Public Accountant Education Minority Program, now the Clay Ford Scholarship Program, for the purpose of funding minority scholarships. The current statutory spending cap for such scholarships is \$100,000.<sup>10</sup> Contingent upon the passage of this bill, the 2013-2014 General Appropriations Act appropriates an additional \$100,000 to the Professional Regulation Trust Fund in order to expand the scholarship program.

The bill also allows for disbursement of scholarship funds to be twice a year rather than the current once a year.

The Department has indicated that the bill will not have a fiscal impact related to complaints and investigations based upon the failure of licensees to comply with the peer review requirements of the bill.<sup>11</sup> Rulemaking will be required regarding both the Clay Ford Scholarship Program and the peer review program. However, the Department indicates that any rulemaking will be handled within existing resources.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

CPA firms will be required to participate in and pay for their participation in a peer review program. There is a potential for reduction in competition due to fewer firms performing audits if all current auditing firms do not enroll in a peer review program.

Moreover, CPA firms will incur costs related to preparing for and participating in a peer review program. The cost of a peer review is based upon the nature, complexity, and size of a firm's accounting and auditing practice. The FICPA has indicated that the cost of a peer review every three years is estimated to range from \$990 to \$3,015, depending on the number of peer review hours required to conduct the review, as shown below.<sup>12</sup>

**Sample Peer Review Costs for Sole Practitioner Firms**

*Sole practitioner with no audits:*

Administrative fee per year @ \$130 x 3 years	\$390
<u>Peer Review- reviewer- approximately</u>	<u>\$600</u>
Total cost over three years	\$990
 Annualized Cost	 \$330

<sup>10</sup> The CPA Education Minority Assistance Program account cash balance, as of June 30, 2012, is \$139,754. This is the largest account balance in the last six years. Department of Business and Professional Regulation Legislative Analysis, page 3, dated January 29, 2013, on file with Business & Professional Regulation Subcommittee.

<sup>11</sup> E-mail correspondence between the staff of the Department of Business and Professional Regulation and staff of the House Government Operations Appropriations Subcommittee, March 13, 2013. E-mail correspondence on file with the subcommittee.

<sup>12</sup> FICPA CPA Licensure, page 3, dated January 14, 2013, on file with the Business and Professional Regulation Subcommittee.

*Sole practitioner firm with one audit, review, and compilations:*

Administrative fee per year @ \$130 x 3 years	\$390
Peer Review- reviewer- approximately 10-15 hours at <u>Reviewer rate (for example \$175/hour)</u>	<u>\$1,750- \$2,625</u>
Total cost over three years	\$2,140- \$3,015

Annualized Cost \$713- \$1,005

D. FISCAL COMMENTS:

None.