

**The Florida Senate**  
**BILL ANALYSIS AND FISCAL IMPACT STATEMENT**

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

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Prepared By: The Professional Staff of the Committee on Fiscal Policy

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BILL: CS/SB 636

INTRODUCER: Regulated Industries Committee and Senator Latvala

SUBJECT: Public Accountancy

DATE: April 14, 2015

REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Oxemendi</u>	<u>Imhof</u>	<u>RI</u>	<b>Fav/CS</b>
2.	<u>Pace</u>	<u>Hrdlicka</u>	<u>FP</u>	<b>Favorable</b>

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**Please see Section IX. for Additional Information:**

COMMITTEE SUBSTITUTE - Substantial Changes

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**I. Summary:**

CS/SB 636 revises provisions related to ch. 473, public accountancy. Specifically the bill:

- Revises provisions relating to the licensure of firms and public accounting firms;
- Revises practice requirements for partnerships, corporations, and limited liability companies;
- Revises the definition of the term “licensed audit firm”; and
- Revises the term “quality review” to include a peer review.

The bill has an indeterminate fiscal impact on government.

**II. Present Situation:**

The Florida Board of Accounting (board), within the Department of Business and Professional Regulation (department), is responsible for regulating and licensing more than 37,000 active and inactive Certified Public Accountants (CPAs) and more than 5,000 accounting firms in Florida.<sup>1</sup> The Division of Certified Public Accounting provides administrative support to the board, which consists of nine members: 7 CPAs and 2 laypersons. The mission of the board is to promote consumer protection by ensuring the CPAs and firms adhere to statutory requirements for licensure.<sup>2</sup> The board regulates the practice of public accountancy by qualifying applicants for

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<sup>1</sup> Florida Department of Business and Professional Regulation, Fiscal Year 2013-2014 Annual Report, available at <http://www.myfloridalicense.com/dbpr/os/documents/FY2013-2014AnnualReportProRegCPARE.pdf> (last visited April 8, 2015).

<sup>2</sup> Sections 473.303, 473.3035, and 473.304, F.S.

the CPA exam, issuing licenses, and taking disciplinary action and is responsible for final decisions affecting the practice of public accounting.<sup>3</sup>

A certified public accountant is a person who holds a license to practice public accounting in this state under ch. 473, F.S.<sup>4</sup> The practice of public accounting includes the offering to perform for the public services involving audits, reviews, compilations, tax preparation, management advisory or consulting services, or preparation of financial statements.<sup>5</sup> To engage in the practice of public accounting, as defined in s. 473.302(8)(a), F.S., an individual or firm must be licensed pursuant to ss. 473.308 or 473.3101, F.S.

### **Firm License Requirement**

A firm is a legal entity that is engaged in the practice of public accounting.<sup>6</sup> In Florida, a firm must hold a license if it uses the title CPA, CPA firm, or any other title, designation, words, letters, abbreviations, or device tending to indicate that the firm practices public accounting or does not have an office in this state but performs the services described in s. 473.3141(4), F.S., for a client having its home office in this state.<sup>7</sup>

A licensed audit firm or public accounting firm is a firm licensed under s. 473.3101, F.S.<sup>8</sup>

Each sole proprietor, partnership, corporation, or limited liability company must apply for licensure with the board. An application for a firm license must be made upon the affidavit of a sole proprietor, general partner, shareholder, or member who is a CPA.

The board licenses all CPA firms who practice public accountancy as defined in s. 473.302(8), F.S., without distinguishing between firms that perform services pursuant to:

- s. 473.302(8)(a), F.S., which includes audits, reviews, and compilations that involve the rendering of an opinion or attestation;
- s. 473.302(8)(b), F.S., which includes tax preparation, management advisory, or consulting services; and
- s. 473.302(8)(c), F.S., which includes one or more services involving the preparation of financial statements not included within s. 473.302(8)(a), F.S.<sup>9</sup>

The initial fee for a firm license fee for partnerships, corporations, and limited liability companies is \$145.00. The initial licensure fee for sole proprietor firms is \$45.00. Firms must also pay a special fee of \$5 per license to fund efforts to combat unlicensed activity.<sup>10</sup> The same fees apply for each biennial renewal.<sup>11</sup>

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<sup>3</sup> Id. See also s. 473.308(2), F.S.

<sup>4</sup> Section 473.302(4), F.S.

<sup>5</sup> Section 473.302(8), F.S.

<sup>6</sup> Section 473.302(5), F.S.

<sup>7</sup> Section 473.3101(1)(a), F.S.

<sup>8</sup> Section 473.302(7), F.S.

<sup>9</sup> Department of Business and Professional Regulation, *2015 Legislative Analysis for SB 636*, February 9, 2015 (on file with the Senate Fiscal Policy Committee).

<sup>10</sup> Section 473.305, F.S., and Rule 61H1-31.010, F.A.C.

<sup>11</sup> Section 473.305, F.S., and Rule 61H1-31.009, F.A.C.

### Practice Requirements

Currently all partnerships, corporations, and limited liability companies engaged in the practice of public accounting must comply with the following practice requirements:

- The entity is recognized by Florida law, or for corporations and limited liability companies, some other state;
- Persons owning at least 51 percent of the financial interest and voting rights of the entity hold an active CPA license in Florida;
- At least one partner, shareholder, or member must hold an active CPA license in Florida; or
- If the firm does not have an office in this state and is therefore required to have a license under s. 473.3101, F.S., at least one partner, shareholder, or member must have active CPA license in Florida;
- All partners, shareholders, or members that are not licensed in Florida are engaged in the business of the company as their principal occupation;
- The partnership must be in compliance with rules adopted by the board pertaining to minimum capitalization, letters of credit, and adequate public liability insurance; and
- The entity is licensed as required by s. 473.3101, F.S.<sup>12</sup>

### Peer and Quality Review

Firms have peer reviews to protect the quality and effectiveness of the accounting, auditing, and attestation services provided by public accounting firms.<sup>13</sup> The board has adopted the American Institute of Certified Public Accountants minimum standards for administering, performing, and reporting on peer reviews.<sup>14</sup>

A quality review is a study, appraisal, or review of one or more aspects of the professional work of an accountant which is conducted by a professional organization for the purpose of evaluating quality assurance required by professional standards, including a quality assurance or peer review.<sup>15</sup>

Currently, all licensed public accounting firms must enroll in a peer review program.<sup>16</sup> A peer review is 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.<sup>17</sup>

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<sup>12</sup> Section 473.309(1), F.S.

<sup>13</sup> PRP Section 1000 AICPA Standards for Performance and Reporting on Peer Reviews (March 2013) p. 1005, available at <http://www.aicpa.org/Research/Standards/PeerReview/DownloadableDocuments/PeerReviewStandards.pdf> (last visited April 8, 2015).

<sup>14</sup> Rule 61H1-39.002, F.A.C.

<sup>15</sup> Section 473.316(1)(d), F.S.

<sup>16</sup> Section 473.3125(4), F.S.

<sup>17</sup> Section 473.3125(1)(b), F.S.

### **III. Effect of Proposed Changes:**

#### **Firm License Requirement (Section 3)**

The bill revises provisions related to the licensure of firms or public accounting firms to clarify which firms require licensure under s. 473.3103, F.S. Specifically, the bill limits licensure requirements to firms:

- With an office in this state that performs the services defined in s. 473.302(8)(a), F.S.;
- That use the title “CPA,” “CPA firm,” or any other title, designation, words, letters, abbreviations, or device tending to indicate that the firm is a CPA firm; and
- Firms that do not have an office in Florida but perform the services described in s. 473.3141(4), F.S., for a client having its home office in Florida.

The bill authorizes the board to define by rule what constitutes a CPA firm.

#### **Practice Requirements (Section 2)**

The bill clarifies practice requirements for partnerships, corporations, and limited liability companies engaged in the practice of public accounting. The bill requires these entities that are engaged in the practice of public accounting to be licensed as a firm under s. 473.3101(1)(b), F.S (section 3). Section 473.3101(1)(b), F.S., requires licensure to use the title CPA, CPA firm, or any other title or device tending to indicate that the firm practices public accounting.

The bill also corrects the cross-references to s. 473.3101(1)(c), F.S.

#### **Definitions (Section 1)**

The bill modifies the definition of a licensed firm or public accounting firm to mean a sole proprietorship, partnership, corporation, limited liability company, firm, or any other legal entity licensed under s. 473.3101, F.S.

#### **Peer and Quality Review (Section 4)**

The bill defines the term “quality review” to include a peer review as defined in s. 473.3125, F.S.

Sections 3 and 5 amend ss. 473.3101 and 473.3125, F.S., to reference the term “firm” or “public accounting firm” in place of the term “partnership, corporation, or limited liability company.” Section 6 amends s. 473.322, F.S., to replace the term “audit firm” with the term “firm.”

The bill is effective on July 1, 2015.

### **IV. Constitutional Issues:**

#### **A. Municipality/County Mandates Restrictions:**

The mandate restrictions do not apply because the bill does not require counties and municipalities to spend funds, reduce counties’ or municipalities’ ability to raise revenue, or reduce the percentage of a state tax shared with counties or municipalities.

**B. Public Records/Open Meetings Issues:**

None.

**C. Trust Funds Restrictions:**

None.

**V. Fiscal Impact Statement:****A. Tax/Fee Issues:**

None.

**B. Private Sector Impact:**

Accounting firms that do not perform audits, reviews, and compilations services that involve the rendering of an attestation or opinion under s. 473.302(8)(a), F.S., would not incur the costs of a firm license.

**C. Government Sector Impact:**

According to the department, the bill will decrease the number of accountancy firms subject to the licensing fee and those subject to fines imposed by the Board of Accountancy. Because the department does not track firms practicing public accounting as defined by s. 473.302(8)(a), F.S., versus those firms that practice public accounting as defined in s. 473.302(8)(b) and (c), F.S., the department is unable to determine the actual number of firm licenses that will no longer be issued, and the related impact on revenue if the bill becomes law. However, the department estimated the impact using historical data and applying the historical percentage split of licensees to the current number of licensees.

The department estimates a negative fiscal impact between \$36,130 and \$61,935.<sup>18</sup>

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.

**VIII. Statutes Affected:**

This bill substantially amends the following sections of the Florida Statutes: 473.302, 473.309, 473.3101, 473.316, 473.3125, and 473.322.

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<sup>18</sup> Department of Business and Professional Regulation, *2015 Legislative Analysis for HB 373*, March 30, 2015 (on file with the Senate Fiscal Policy Committee).

**IX. Additional Information:**

- A. **Committee Substitute – Statement of Substantial Changes:**  
(Summarizing differences between the Committee Substitute and the prior version of the bill.)

**CS by Regulated Industries on March 31, 2015:**

The committee substitute:

- Amends s. 473.302(7), F.S., to define a licensed audit or public accounting firm as a sole proprietorship, partnership, corporation, limited liability company, firm, or any other legal entity licensed under s. 473.3101, F.S. It does not amend the term to mean a firm licensed under s. 473.3101, F.S., that performs the services described in s. 473.302(8)(a), F.S.
- Amends s. 473.309, F.S., to require that partnerships, corporations, and limited liability companies engaged in the practice of public accounting must be licensed as a firm under s. 47.3101(1)(b), F.S.
- Amends ss. 473.309, F.S., to correct the cross-reference to s. 473.3101(1)(c), F.S.;
- Amends s. 473.3101(2), F.S., to require that applicants for licensure as a firm must file an application with the department and supply the information that the board requires, and to require that the application must be made upon the affidavit of a sole proprietor, general partner, shareholder, or member who is a CPA.

- B. **Amendments:**

None.