

Legislative Analysis



CERTIFIED PUBLIC ACCOUNTANT LICENSURE

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House Bill 6196 as introduced
Sponsor: Rep. Bert Johnson
Committee: Regulatory Reform

Complete to 6-30-10

A SUMMARY OF HOUSE BILL 6196 AS REPORTED FROM COMMITTEE

The bill would amend multiple sections of Article 7 of the Occupational Code, which provides for the licensure of certified public accountants. The bill would expand the scope of CPAs work related to management advisory, financial advisory, or consulting services so as to include business valuation, forensic accounting, and fraud examination services.¹

The bill makes changes in the qualifying experience required for licensure as a CPA. To obtain licensure as a CPA at present, applicants must have one year experience in public accounting or governmental accounting. Under the bill, qualified experience is defined as experience gained through employment in government, industry, academia, or public practice in one or more of the following areas:

- Audits, reviews, and compilations of financial statements in accordance with applicable standards at the time of engagement.
- Attestation engagements and other auditing in accordance with applicable standards at the time of engagement. Other audits include reviews regarding internal control, operational and compliance audits, and expressions of an opinion on financial forecasts and projections.
- Independent internal audits.
- Compliance audits of government contracts and audits performed on behalf of a government agency resulting in issuance of an opinion or report.
- Preparation of income and nonprofit tax returns for any taxing jurisdiction.
- Properly documented tax research.
- Representing a client before a government agency on a tax matter.
- Financial forecasts, analyses, and projections.

¹ Legislation sponsored by Sen. Sanborn (SB 1091) amends the Professional Investigator Licensure Act, 1965 PA 285, to clarify that accounting firms and accountants licensed or registered in Michigan or elsewhere are not regulated under that act. SB 1091 clarifies that forensic accounting and fraud examination activities conducted by accountants are not subject to regulation under the PLLA. That bill was reported by the Committee on Regulatory Reform on June 23, 2010, and is currently pending on the House floor.

- Management advisory services.
- Management and supervision of accounting functions and preparation of financial statements for profit and nonprofit entities.
- Professional accounting related work in a public accounting firm.
- Other work generally associated with the profession.

[According to testimony before the Committee on Regulatory Reform by the Michigan Association of Certified Public Accountants, Michigan is said to be one of only a few states that currently does not consider industry experience when applicants apply for a CPA license. The bill would make Michigan's licensure statute look more like those of other states.]

An applicant may not receive qualifying experience credit for nonprofessional work, including recruiting, industrial engineering, administration, bookkeeping, and appraisals, or paraprofessional work outside a public accounting firm. Requirements for licensure of CPAs credentialed in other states or countries are changed by the bill. Licensees from other states would merely have to document four years of qualifying experience after passing the other state's examination within 10 years immediately preceding the application for Michigan licensure. This new language would replace current language requiring a determination that the other state's requirements are equivalent to those in Michigan.

Foreign applicants would continue to be subject to a determination that standards of the jurisdiction issuing their certificate were equivalent to Michigan requirements. The requirement that the applicant must have passed an examination on topics specific to the practice of public accounting in the United States is deleted.

Technical language changes are made in the peer review requirements of Article 7. "Adverse report" is changed to "fail rating.. "Modified peer review report" is renamed "consecutive pass with deficiencies rating."

The scope of penalties in Section 734 is expanded to include departure from standards of professional practice applicable to the engagement, at the time of the engagement. Cancellation, revocation, suspension, or refusal to renew authority to practice by any jurisdiction of the United States would now be subject to penalties. Suspension or revocation of the right to practice before a public accounting oversight board would also be subject to penalties.

[Note: Information in this summary is derived from a description of the significant licensure changes as provided by the Department of Energy, Labor, and Economic Growth.]

FISCAL IMPACT:

By expanding the type prior work experience allowed of CPA applicants as a condition for obtaining certification, and facilitating the issuance of reciprocal licenses, the bill would generally serve to increase the number of CPAs licensed by the Department of Energy, Labor, and Economic Growth–Bureau of Commercial Services. Neither the bureau nor industry representatives have any estimates as to how the expanded experience provisions

would impact the CPA licensing functions of the bureau, in terms of the volume of new CPA applicants.² As such, the amount of any resulting staffing/cost increase on the bureau is, at present, indeterminate.³ However, the general trend nationwide among recent accounting graduates (bachelor's and master's) is that an increasing percentage are selecting public accounting experience over industry accounting experience, meaning that many would likely pursue CPA certification anyway.⁴ Although the job outlook for accountants, particularly CPAs, is said to be "favorable" in the near term, the recent trend has seen public accounting firms curtail their pace of hiring, meaning that many prospective CPA applicants (recent graduates) may opt in the near term for industry experience instead. In most states, such experience would be considered "qualifying experience" for CPA licensure, although that is currently not the case in Michigan.⁵

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

² On this point, the U.S. Bureau of Labor Statistics notes, "[i]t is less common for accountants and auditors to move from either management accounting or internal auditing into public accounting." See, *Occupational Outlook Handbook, 2010-11 Edition*, U.S. Department of Labor, Bureau of Labor Statistics [<http://www.bls.gov/oco/ocos001.htm>].

³ According to the DELEG-Bureau of Commercial Services, as of May 31, 2010, there were 10,677 licensed accountants, 6,085 registered accountants, and 1,160 licensed CPA firms. In comparison, the U.S. Bureau of Labor Statistics estimates that, as of May 2009, there were 31,300 "accountants and auditors" (Standard Occupational Classification Code 132011). See, the BLS Occupational Employment Statistics Program, [<http://www.bls.gov/oes/home.htm>]. According to DELEG, during the two year license cycle (FY 2008 and FY 2009), accountancy license fee revenue was \$2.1 million, while regulatory expenses were \$839,674, [http://www.michigan.gov/documents/dleg/Sec_368_BCS_BCC_Rept_314836_7.pdf].

⁴ *2009 Trends in the Supply of Accounting Graduates and the Demand for Public Accounting Recruits*, American Institute of Certified Public Accountants, [http://www.aicpa.org/InterestAreas/AccountingEducation/NewsAndPublications/DownloadableDocuments/2009_TrendsReport.pdf]

⁵ See, *Occupational Outlook Handbook, 2010-11 Edition* and *2009 Trends in the Supply of Accounting Graduates and the Demand for Public Accounting Recruits*. Data on short-term (2008-2010) employment projections for accountants and auditors compiled by the DELEG Bureau of Labor Market Information and Strategic Initiatives estimated a decline in employment, while long-term (2006-2016) employment projections forecast job growth. See, the bureau's website, [<http://www.milmi.org/>]. According to testimony before the Committee on Regulatory Reform by the Michigan Association of Certified Public Accountants, Michigan is said to be one of only a few states that currently does not consider industry experience when applicants apply for a CPA license, [<http://www.house.mi.gov/SessionDocs/2009-2010/Testimony/Committee19-6-23-2010-1.pdf>].