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BILL ANALYSIS



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House Bill 6196 (as passed by the House)  
Sponsor: Representative Bert Johnson  
House Committee: Regulatory Reform  
Senate Committee: Economic Development and Regulatory Reform

Date Completed: 9-15-10

### **CONTENT**

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

- **Include business valuation, forensic accounting, and fraud examination services in the practice of public accounting.**
- **Revise the qualifying experience requirements for receiving a certificate as a certified public accountant (CPA).**
- **Expand the requirements for receiving a CPA certificate in Michigan based on holding a certificate from another state or other United States jurisdiction.**
- **Subject a CPA to administrative sanctions for a departure from standards of professional practice.**

#### Practice of Public Accounting

Under Article 7, in addition to the definition of "practice of public accounting", that practice includes various activities, when performed by a person holding himself or herself out as a CPA. These activities include one or more kinds of management advisory, financial advisory, or consulting services. The bill specifies that those services would include business valuation, forensic accounting, and fraud examination services.

#### Certificate as a CPA

Article 7 requires the Department of Energy, Labor, and Economic Growth (DELEG) to issue a certificate as a CPA to an individual who meets certain requirements.

Qualifying Experience. An applicant for a certificate must have one year of qualifying experience under the direction and supervision of a licensed CPA of Michigan or another state that meets certain criteria. In complying with that requirement, the applicant must have performed one financial audit, and may submit an audit performed under the direction and supervision of a licensed CPA who is not the applicant's employer or an audit performed while the applicant was meeting the educational requirements of Article 7. The bill would delete those provisions.

Instead, for an application for a CPA certificate received on or after the bill's effective date, or an application received before that date if a certificate had not been issued, the applicant would have to have one year of qualifying experience, all of which was verified by a CPA of this or any other state or of any jurisdiction of the United States, submitted on a form prescribed by DELEG.

Qualified experience would be experience gained through employment in government, industry, academia, or public practice in one or more of the following areas:

- One or more of the following, in accordance with the applicable standards at the time of engagement: audits of financial statements; reviews of financial statements; compilations of financial statements with complete disclosure; or attestation engagements.
- Other auditing in accordance with applicable standards at the time of engagement that led to an expression of a written opinion, including reviews regarding internal control; operational audits; compliance audits; or expressions of an opinion on financial forecasts and projections.
- Performance of an independent internal audit function.
- Compliance audits of government contracts performed on behalf of a government agency that resulted in the issuance of an opinion or report.
- Audits performed on behalf of a government audit agency that resulted in the issuance of an opinion or report.
- Preparation of income and nonprofit tax returns for any taxing jurisdiction.
- Properly documented tax research.
- Representation of a client before a government agency on a tax matter.
- Financial forecasts, analyses, and projections.
- Management advisory services including business valuation, forensic accounting, and fraud examination services that met applicable standards.
- Management and supervision of accounting functions and preparing financial statements for profit or nonprofit entities.
- Professional accounting-related work in a public accounting firm.
- Other work generally associated with the profession of public accounting.

An applicant for certification could not receive credit as qualifying experience for either of the following:

- Experience consisting of nonprofessional work, including recruiting, industrial engineering, administration, bookkeeping, and appraisals.
- Paraprofessional work that did not constitute professional accounting-related work in a public accounting firm.

Certificate Issued in another Jurisdiction. The Department must issue a CPA certificate to an individual who holds a valid and unrevoked CPA certificate issued by or under the authority of another state or United States jurisdiction and provides proof that his or her original certificate was secured on the basis of requirements that the State Board of Accountancy determines are equivalent to the standards required for qualification in Michigan at the same time the applicant was issued his or her original certificate.

Under the bill, an individual also would be required to have had four years of experience of the type described in the qualifying experience requirements listed above, after having passed the examination upon which the applicant's certificate was based, within 10 years immediately preceding the date of application.

#### Administrative Sanctions

Under Article 7, the holder of a certificate, registration, or license as a CPA, or an individual exercising the practice privilege granted under Article 7 for temporary practice in Michigan when his or her principal place of business is not in the State, is subject to penalties under Section 602 of the Code for certain actions. (Section 602 specifies administrative sanctions for a person, school, or institution that violates the Code or a rule or order promulgated or issued under it.) The bill would include departure from standards of professional practice

applicable to the engagement, at the time of engagement, in the actions that are subject to sanctions.

MCL 339.720 et al.

Legislative Analyst: Patrick Affholter

**FISCAL IMPACT**

The bill would have no fiscal impact on State or local government.

Fiscal Analyst: Elizabeth Pratt

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.