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FISCAL IMPACT REPORT

SPONSOR:	Kidd	DATE TYPED:	02/15/00	HB	
SHORT TITLE:	Amend Public Accountancy Act			SB	266/aSCORC/aHBIC
				ANALYST:	Valdes

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY00	FY01	FY00	FY01		
				No impact	

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

Regulation and Licensing Department, Public Accountancy Board

General Services Department (GSD)

SUMMARY

Synopsis of HBIC Amendment

This amendment requires a licensee that is paid or expects to be paid a commission to disclose this fact *in writing*, to the person for whom the work is to be performed. It also requires a licensee that accepts, or pays a referral fee for a service, or to obtain a client, to disclose such acceptance or payment to a client *in writing*.

Synopsis of SCORC Amendment

This amendment provides additional clarification on restrictions which apply to CPAs engaged to provide certain client services. This amendment was recommended by the Board of Public Accountancy under the "Technical Issue" section below.

Synopsis of Bill

This bill amends the 1999 Public Accountancy Act to permit licensed certified public accountants (CPAs), public accounting firms, licensed registered public accountants, and other legal business entities that practice public accountancy to charge contingent fees. It allows contingent fees for product or service referrals but rescinds their ability to charge contingent fees for tax work.

Significant Issues

The bill will better enable CPAs to determine those circumstances and restrictions necessary for commission and contingent fee arrangements. The bill's language needs clarification to correctly describe restrictions which apply to arrangements between CPAs and those clients for whom CPAs are engaged to provide certain restricted services (audit, review, compilation and prospective financial statements).

According to GSD, this bill would allow a public accounting firm hired by state government under a professional services contract to accept a commission from a software or other services vendor for a financial services product recommendation. It is possible that a public entity might enter into a contingent fee arrangement for a project that had measurable efficiency or savings potential.

ADMINISTRATIVE IMPLICATIONS

An increase in the use of contingent fees in professional services contracts may require changes in the state procurement code.

TECHNICAL ISSUES

According to the Board of Public Accountancy, the bill's language needs clarification to correctly describe that certain restrictions apply to arrangements between CPAs and those clients for whom CPAs are engaged to provide certain restricted services (audit, review, compilation and prospective financial statements). The following amendments are recommended:

- On page 8, line one after "...following services..." add "for that client"
- On page 8, line 22 after "...contingent fee..." add "from a client for whom"

OTHER SUBSTANTIVE ISSUES

According to GSD, the rigorous regulations that apply to public accounting are a result of increased oversight of the profession by the U.S. Securities and Exchange Commission in the 1930s. The cause was a lack of auditing standards which resulted in poor information to shareholders, many of who lost large amounts of money in the crash of 1929. The current regulations only permit contingent fees for tax preparation or amendments. These changes would allow competition with other service providers in consulting involving software or other services as long as they are not in an "attest" engagement with the client. This bill disallows contingent fees for tax work.

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