

CALIFORNIA BOARD OF ACCOUNTANCY

INITIAL STATEMENT OF REASONS

Hearing Date: July 21, 2016

Subject Matter of Proposed Regulations: Continuing Education (CE) – Preparation Engagements

Sections Affected: 80.1, 80.2, 87, and 87.1

Specific Purpose of each adoption, amendment, or repeal:

1. Problem being addressed:

Licensees, which as their highest level of service, perform only preparation engagements are not required to take CE specific to preparation engagement (PE) or accounting and auditing (A&A) for renewal of license.

Existing law, Business and Professions Code (BPC) section 5027, authorizes the California Board of Accountancy (CBA) to adopt, amend or repeal rules regarding continuing education exercising its power under this section for the interests of consumer protection. The CBA is required to establish standards which will assure reasonable currency of knowledge as a basis for a high standard of practice by licensees.

In May 2015, the CBA began discussion of the American Institute of Certified Public Accountants (AICPA) October 2014 issuance of Statement on Standards for Accounting and Review Services (SSARS) 21, and the subsequent creation of a new level of service for engagements to prepare financial statements.

SSARS 21 applies when the accountant is engaged to prepare financial statements prior to audit or review by another accountant or for statements not intended for use by a third party, or otherwise management use only. Additionally, SSARS 21 redefines that a compilation engagement will apply when an accountant is engaged to report on compiled financial statements or submits the financial statements to the client or to third parties. SSARS 21 requires that a report is issued for all compilation engagements; thus, engagements where no report is issued will now be covered under financial statement preparation.

A licensee who performs work on an audit, review, compilation, or attestation service must complete the 24-hour A&A and four-hour fraud CE requirements. Historically, licensees that perform compilations where no report was issued (commonly referred to as “management use only” or “internal use only”) were subject to the A&A and fraud CE requirements. This type of service is now being

referred to as a preparation engagement. With the new service outside the scope of the present A&A and fraud CE requirements, the CBA determined that licensees who as their highest level of service perform only preparation engagements in accordance with SSARS 21 should still be required to complete a specified amount of CE in the preparation of financial statements.

The preparation engagement standard will apply when the accountant in public practice is engaged to prepare financial statements but is not engaged to perform an audit, review, or a compilation on those financial statements. A licensee that is engaged to prepare financial statements is not required to make a determination regarding independence from the entity.

The CBA decided to require licensees who, as their highest level of service, perform preparation engagements to complete eight hours of A&A CE and four hours of CE specifically related to the prevention, detection, and/or reporting of fraud affecting financial statements. Since licensees who provide these services are excluded from peer review, focused CE on A&A and fraud will maintain a level of proficiency that assists in protecting consumers.

2. Anticipated benefits from this regulatory action:

Requiring licensees who perform this level of service to take required CE specific to preparation engagements or accounting and auditing will assist the CBA in its mission of consumer protection by ensuring these licensees maintain their professional competency.

Factual Basis/Rationale

The CBA proposes the following amendments to sections 80.1, 80.2, 87, and 87.1 of Title 16 of the CCR.

- Section 80.1 – Conversion or Restoration to Active Status Prior to Renewal. Requires for conversion or restoration to active status prior to renewal, eight hours of CE in A&A for licensees who, as the highest level of service, provided preparation engagements in the prior two years. In addition, requires such licensees, to complete four hours of CE in the prevention, detection, and or reporting of fraud affecting financial statements. Requiring CE of PE or A&A and the prevention, detection, and or reporting of fraud affecting financial statements in this section maintain its consistency with section 87.

Section 80.2 – Continuing Education Requirements Following Conversion or Restoration to Active Status During the Renewal Period. Defines the prorated CE requirement following conversion or restoration to active status during the renewal period at two hours for each 20 hours of CE required

for licensees who, as their highest level of service, provided preparation engagements. In addition, requires such licensees, to complete four hours of CE in fraud prevention, detection, and or reporting of fraud affecting financial statements. Requiring CE of PE or A&A and the prevention, detection, and or reporting of fraud affecting financial statements in this section maintain its consistency with section 87.

- Section 87 – Basic Requirements.
Establishes and defines the A&A CE requirements for licensees who, as the highest level of service, provided preparation engagements at eight hours of the 80 hours required every two years. In addition, requires such licensees, to complete the requirement of four hours of fraud prevention, detection, and or reporting of fraud affecting financial statements. The CBA believed some level of CE should be required as preparation engagements do not trigger a peer review as a means of ensuring continuing competency. The CBA chose 8 hours of PE and A&A and four hours of CE in the prevention, detection, and or reporting of fraud affecting financial statements because this new level of service is a lower level of service than attest service, but is closely related to accounting and auditing work, requiring a lower total number of hours of CE in this area.
- Section 87.1 – Continuing Education Requirements for New Licensees.
Defines the CE requirement and proration at two hours of A&A for each 20 hours of CE required for new licensees who, as the highest level of service, provided preparation engagements. Requiring CE of PE or A&A and the prevention, detection, and or reporting of fraud affecting financial statements in this section maintain its consistency with section 87.

Consumer Protection

The CBA mission to protect consumers by ensuring only qualified licensees practice public accountancy in accordance with established professional standards is furthered by the proposed amendment of sections 80.1, 80.2, 87, and 87.1.

Specifically, by requiring CE in PE or A&A and the prevention, detection, and or reporting of fraud affecting financial statements, the CBA establishes a method to ensure that licensees who, as the highest level of service, provided preparation engagements to consumers in California are qualified by maintaining their professional competency.

Underlying Data

Technical, theoretical, or empirical studies, reports, or documents relied upon:
Minutes of the September 17-18, 2015 CBA Meeting
Minutes of the November 19, 2015 CBA Meeting

Minutes of the January 21-22, 2016 CBA Meeting

Business Impact

The CBA has made an initial determination that the proposed regulatory action would have no significant statewide adverse economic impact directly affecting business, including the ability of California businesses to compete with businesses in other states.

AND

The following studies/relevant data were relied upon in making the above determination. The CBA already requires 80 hours of CE per two year renewal cycle. This proposal only specifies which CE subjects must be taken for a portion of those hours and does not add to the total hours required.

Economic Impact Assessment

This regulatory proposal will have the following effects:

- It will not create or eliminate jobs within the State of California because the proposed changes are not of sufficient magnitude to create or eliminate jobs or businesses.
- It will not create new business or eliminate existing businesses within the State of California because the proposed changes will not be of sufficient magnitude to have the effect of creating or eliminating businesses.
- It will not affect the expansion of businesses currently doing business within the State of California because the proposed changes will not be of sufficient magnitude to have the effect of creating or eliminating businesses.
- This regulatory proposal benefits the health and welfare of California residents because it will help ensure licensees who perform this level of service will take CE specific to PE or A&A, and the prevention, detection, and or reporting of fraud affecting financial statements, which in turn assists in maintaining professional competency.
- This regulatory proposal does not affect worker safety because it has nothing to do with worker safety.
- This regulatory proposal does not affect the state's environment because it has nothing to do with the environment.

Specific Technologies or Equipment

This regulation does not mandate the use of specific technologies or equipment.

Consideration of Alternatives

No reasonable alternative to the regulatory proposal would be either more effective in carrying out the purpose for which the action is proposed or would be as effective or less burdensome to affected private persons and equally effective in achieving the purposes of the regulation in a manner that ensures full compliance with the law being implemented or made specific.

Set forth below are the alternatives which were considered and the reasons each alternative was rejected:

- The only alternative considered was to maintain the status quo. The CBA rejected this alternative because as a new level of service, a preparation engagement, is closely related to accounting and auditing work, and requires CE to maintain competency in that service.