

Approved: 3-22-93
Date

MINUTES OF THE HOUSE COMMITTEE ON GOVERNMENTAL ORGANIZATION AND ELECTIONS.

The meeting was called to order by Chairperson Marvin Smith at 9:00 a.m. on March 19, 1993 in Room 521-S of the Capitol.

All members were present except: Representative Gary Haulmark
Representative Walker Hendrix

Committee staff present: Carolyn Rampey, Legislative Research Department
Dennis Hodgins, Legislative Research Department
Arden Ensley, Revisor of Statutes
Nancy Kippes, Committee Secretary

Conferees appearing before the committee:

Don Paxson, Kansas State Board of Accountancy
T. C. Anderson, Kansas Society of CPAs

Others attending: See attached list

Hearing on:

SB 238 - certified public accountants, peer review or quality review.

Don Paxson, Kansas State Board of Accountancy, testified in support of SB 238, stating approximately 81% of accounting firms in Kansas are presently covered by quality review. This bill would bring all accounting firms into the quality review. (Attachment 1).

T. C. Anderson, Kansas Society of CPAs, provided testimony in support of SB 238, advising this bill pertains only to CPAs and the public accountants have not voiced concern about this (Attachment 2).

SB 349 - political affiliation of appointees to state committees, councils, boards and commissions.

Arden Ensley, Revisor of Statutes, provided some background information and said this bill would require a person being appointed to a committee, council, board, or commission of the state to be a member of that political party for 24 months preceding the appointment date.

Action on:

SB 209 - appointments and commissions; reporting certain information to the secretary of state; registry of such information.

Carolyn Rampey, Legislative Research, clarified SB 209 as applying to all statutory appointments but it does not include non-statutory appointments.

Representative McKechnie moved favorable of SB 209. Representative Scott seconded. Motion carried.

SB 60 - name changes of certain standing committees of the senate.

Representative Dawson made a motion for favorable passage of SB 60. Representative O'Connor seconded. Motion carried.

Representative Dillon made a motion for approval of the minutes for March 18, 1993 as submitted. Representative Cox seconded. Motion carried.

The meeting was adjourned at 9:50 a.m. The next meeting is scheduled for March 22, 1993.

GUEST LIST

COMMITTEE: House Governmental Organization & Elections DATE: 3-19-93

[illegible]

STATE OF KANSAS
BOARD OF ACCOUNTANCY

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March 19, 1993

Chairman Smith, members of the Committee:

I am Don Paxson, a practicing certified public accountant from Topeka and member of the Kansas State Board of Accountancy.

I appear before you today to urge your favorable consideration of SB 238 as amended.

If enacted, this legislation would require all CPAs practicing in the financial reporting area to submit to a review by their peers as a condition of permit renewal beginning in 1994.

This concept should not be considered a major policy change since the Legislature in 1987 authorized the Board of Accountancy to implement a positive enforcement program which is contained in K.S.A.1-501.

Under that program CPAs could either send samples of their financial reporting to the State Board for review or participate in peer or quality review programs under the auspices of the American Institute of CPAs and the 50 state CPA societies.

Since the inception of the positive enforcement program the Board has reviewed the accounting and auditing work of 193 firms.

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House Gov't Org + Elec.
Attachment 1

In 1987 the Board consisted of 6 CPAs who had proficiency in accounting and auditing and one lay person. Today, 5 CPAs, four of which spend their time on financial statements, and two lay persons comprise the Board. Quite frankly, the workload created by this program has become too great for the CPA members of the Board who review, on a volunteer basis, each report submitted.

With Positive Enforcement we look only at the final work product of the CPA and note any report deficiencies that might be detected. A skim of the surface, if you will.

With Quality Review, CPAs visit the offices of those firms which perform audits and look at the working papers which support the numbers in the report. The reviewers check the adherence to professional standards and the firm's system of quality control. All this is missing in Positive Enforcement.

For firms that perform no audits, the quality review is conducted off-site but, it too, is much more detailed than Positive Enforcement. Reviewers check and report on the firm's system of quality control, it's library and the mix of its continuing professional education.

I've attached to my testimony the nine elements of quality control.

The Board has noted over the past five years that 88 of those 193 firms it has reviewed are now enrolled in the peer review or quality review programs.

In fact 443 Kansas practice units, or 81 percent, are now voluntarily enrolled in a program of peer or quality review. We'd like for the other 19 percent to do so, also.

As I said earlier, this requirement would become effective July 1, 1994. Since Kansas CPAs are licensed biannually, only about 50 firms currently submitting reports to the Board would be subject to the review by that date, while the other 50 would have until 1995 to have the review.

The quality program itself would emphasize education and is directed towards helping CPAs improve their accounting and auditing services to clients and third party users of the statements.

The Board of Accountancy would not be involved in grading CPAs under this program, but would provide oversight of the programs.

Disciplinary action would be for failure to submit to a review and for failure to successfully complete a education or remedial program.

Firms would be required to have the review only once every three years and at their own expense. Firms which have a tax only practice would be exempt from the program and the Bill provides for waivers from the program for cause. The Bill does not address public accountants since they are not regulated by the Board.

Thus, there is no cost to the State and members of the Board of Accountancy and the Board staff would be able to spend more time on policy matters and the protection of the public rather than reviewing reports if SB 238 is enacted.

Finally, the confidentiality provisions for the peer and quality review programs would remain as they were enacted in 1990. These are necessary to ensure all aspects of the review process are conducted in a manner so as to prevent the disclosure of confidential information about a CPA's client.

This concept of practice monitoring is endorsed by the National Association of State Boards of Accountancy and has been enacted into law by 10 states.

With me today are Glenda Moore, Executive Director of the Board of Accountancy and T. C. Anderson, Executive Director of the Kansas Society of CPAs who is also scheduled to testify on the Bill. The three of us will be pleased to attempt to answer your questions.

Once again, I hope the Committee will recommend SB 238 favorably for passage. Thank you.

The Nine Elements of Quality Control

<u>Element</u>	<u>Designed to Provide Assurance That:</u>
Independence	The firm adheres to the independence rules of conduct.
Assigning Personnel to Engagements	Work will be performed by persons having the degree of technical training and proficiency required in the circumstances.
Consultation	After appropriate research, personnel will seek assistance from persons having appropriate levels of knowledge, competence, judgment and authority.
Supervision	Work performed (e.g., planning, supervision, review, workpaper documentation) and the reports and financial statements issued by the firm meet the firm's (and the profession's) standards of quality.)
Hiring	Personnel possess the appropriate characteristics to enable them to perform competently.
Professional Development	Personnel will have the knowledge required (through education and training) to enable them to fulfil responsibilities assigned.
Advancement	Those selected for advancement will have the qualifications necessary to enable them to fulfil responsibilities assigned.
Acceptance and Continuance of Clients	There is minimal chance that the firm will be associated with a client whose management lacks integrity.
Inspection	The procedures relating to the other eight elements of quality control are being effectively applied.



Kansas Society of Certified Public Accountants

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March 19, 1993

SB 238

House Governmental Organization and Elections Committee

Chairperson Smith, members of the Committee:

My name is T. C. Anderson and I serve as the Executive Director of the 2,300-member Kansas Society of CPAs.

Our organization is on record as supporting SB 238 as amended and we urge your favorable consideration of the legislation.

Quality review is required of all CPA firms auditing SEC registrants, recipients of federal government financial grants, Department of Labor ERISA plans and others.

It is being proposed for all FDIC work and is being considered by at least two other state legislatures this year.

Since the Kansas Society is a volunteer membership organization we have been administering peer and quality review programs for both members and non-members since 1989.

The reviews can be conducted from a bank of reviewers from all 50 states who have completed a two-day training course and who have met experience and proficiency requirements.

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Attachment 2

Does the process improve the quality of a CPAs accounting and auditing practice? We believe so. There has been marked improvement in the results of the review for the firms who have already participated twice.

The number of potential accounting and auditing claims filed with the major provider of CPA Liability Insurance has dropped from six in both 1989 and 1990 to three in 1991 and only one so far for work done in 1992. I hope that trend continues.

The enactment of SB 238 also would provide the necessary safeguards to allow the Board of Accountancy to move forward with changes in the current experience requirement necessary to receive the permit to practice.

The Board of Accountancy has developed a plan for eliminating the need for experience under a permit holding CPA if the candidate wishes to perform tax, compilation and review services. The concept, which substitutes Quality Review for the stringent experience requirement, is now under study at both the national and state levels.

Our members who are employed in industry, education and state and federal government are excited about the prospect of easing the experience requirement.

Thank you and I'll be pleased to stand for questions.