**TITLE 872 INDIANA BOARD OF ACCOUNTANCY**

**Economic Impact Statement**
LSA Document #07-306

**IC 4-22-2.1-5 Statement Concerning Rules Affecting Small Businesses**

This proposed rule amends 872 IAC 1-6 to revise the requirements and procedures for a quality review program for CPA and PA firms.

**Impact on Small Businesses**

**1. Estimate of the number of small businesses, classified by industry sector, that will be subject to the proposed rule:**

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| NAICS 541211 | Firm Permit to Practice Accounting | 1131 |

As of the date of this memo, there are 1,131 accounting firms with permits to practice accountancy issued by the Indiana Board of Accountancy (Board). All of these firms are not considered small businesses, and, since the Indiana Professional Licensing Agency (IPLA) does not maintain data on the number of small businesses, there is no way of determining exactly how many of these firms are categorized as small businesses. This proposed rule requires only those accountancy firms to complete a quality review every three years as a condition for renewal, if the firm completed any attest or compilation, or both, work in the previous three years prior to the expiration date of the firm permit. This requirement further reduces the number of accountancy firms that may require a quality review. There is no way of knowing how many of these firms are categorized as small businesses.

**2. Estimate of the average annual reporting, record keeping, and other administrative costs that small business will incur to comply with the proposed rule.**

There will be no annual reporting or record keeping requirements imposed by these proposed rules. And although the proposed rule does not specifically impose any administrative costs, there can be some costs imposed by the administrative entity (state CPA societies) and the firm conducting the quality review.

One of the administering entities, the Indiana State CPA Society (Society), assesses an annual administrative fee of $100 to $300 to members of the Society. This fee is doubled for nonmembers. There is no data available on the fees that may be assessed by a firm conducting the quality review. Neither of these fees are controlled by the Board or IPLA.

**3. Estimate of the total annual economic impact that compliance with the proposed rule will have on all small businesses subject to the rule.**

The Board estimates that there will be an impact on small businesses as a result of compliance with this rule. In order to comply with this rule a qualifying accountancy firm will need to enroll in a quality review program and undergo a quality review.

The administering entities (state CPA societies) of the quality review program assess a fee to each accounting firm that enrolls in the quality review program. This fee is not controlled by the Board or IPLA and is at the total discretion of each state CPA society.

The Indiana State CPA Society (Society), one of the administering entities, assesses an annual administrative fee of $100 to $300 to members of the Society. This fee is doubled for nonmembers. The Society estimated about 600 firms enrolled in the quality review program during the last renewal period in 2006, and there is no data on how many of these firms are small businesses.

In addition to the fee assessed by administering entities, the reviewing firm may also assess a fee to the firm being reviewed. This fee is also not controlled by the Board or IPLA, and there is no way of knowing what the fee is.

Since the number of affected small businesses is unknown, the fees assessed by the administrative entity vary, and the fees assessed by the reviewing firm are not known, a definitive response cannot be given.

**4. Statement justifying any requirement or cost that is imposed on small businesses by the rule; or any other state or federal law.**

The Board is proposing this rule to revise the requirements and procedures for a quality review program for CPA and PA firms, which will continue to ensure that accountancy firms are providing the public with quality accountancy services, and gives the Board an added means of monitoring those firms that are not providing adequate accountancy services to the public.

Although there are fees associated with the administering and completing of a quality review, the Board believes that these fees are insignificant in comparison to the benefits of assuring that the public is protected and that accountancy firms are utilizing acceptable accounting practices. Practitioners are more likely to render a higher level of service, if they know that their accountancy services are subject to review and consumers will gain a greater level of comfort or confidence, or both, in their accountant, which again is believed to outweigh any associated costs.

**5. Regulatory flexibility analysis of alternative methods.**

No alternatives were considered as the proposed rule has an insignificant fiscal impact.

**6. Conclusion**

The quality review program is designed to ensure that acceptable accountancy practices are being utilized by licensed accountancy firms. Quality review programs also contribute to the quality and effectiveness of the practice of accountancy. This proposed rule is a continued effort to ensure that consumers are receiving the best accountancy services available and also gives them an added protection from unscrupulous practitioners.

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