

Substituted for SF 2099  
3-14-96  
(P. 809)

FEB 19 1996

Place On Calendar

HOUSE FILE 2247  
BY COMMITTEE ON STATE GOVERNMENT

(SUCCESSOR TO HSB 524)

Passed House, Date <sup>(P. 526)</sup> 3/5/96 Passed Senate, Date <sup>(P. 809)</sup> 3-14-96  
Vote: Ayes 96 Nays 0 Vote: Ayes 49 Nays 0  
Approved March 20, 1996

**A BILL FOR**

1 An Act relating to permissible fees and commission to be paid to  
2 certified public accountants and accounting practitioners.  
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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HF 2247

1 Section 1. Section 542C.2, Code 1995, is amended to read  
2 as follows:

3 542C.2 DEFINITIONS.

4 As used in this chapter, unless the context otherwise  
5 requires:

6 1. "Accounting practitioner" means a person licensed by  
7 the board as provided in this chapter, who does not hold a  
8 certificate as a certified public accountant under this  
9 chapter, and who offers to perform or performs for the public,  
10 and for compensation, any of the following services:

11 1- a. The recording of financial transactions in books of  
12 record.

13 2- b. The making of adjustments of such transactions in  
14 books of record.

15 3- c. The making of trial balances from books of record.

16 4- d. Internal verification and analysis of books or  
17 accounts of original entry.

18 5- e. The preparation of financial statements, schedules,  
19 or reports.

20 6- f. The devising and installing of systems or methods of  
21 bookkeeping, internal controls of financial data, or the  
22 recording of financial data.

23 Nothing contained in this definition or elsewhere in this  
24 chapter shall be construed to permit an accounting  
25 practitioner to give an opinion attesting to the reliability  
26 of any representation embracing financial information as  
27 defined in section 542C.25, subsections 8 and 9. Any  
28 transmittal letters and titles to financial statements  
29 included in reports prepared by accounting practitioners shall  
30 be labeled as unaudited.

31 2. "Commission" includes brokerage or other participation  
32 fees. "Commission" does not include a contingent fee.

33 3. "Contingent fee" means a fee established for the  
34 performance of any service pursuant to an arrangement under  
35 which a fee will not be charged unless a specified finding or

1 result is attained, or under which the amount of the fee is  
2 otherwise dependent upon the finding or result of such  
3 service. "Contingent fee" does not mean a fee fixed by a  
4 court or other public authority, or a fee related to any tax  
5 matter which is based upon the results of a judicial  
6 proceeding or the findings of a governmental agency.

7 4. "Practice of public accounting" means the performance  
8 or the offering to perform, by a person holding oneself out to  
9 the public as a certified public accountant or accounting  
10 practitioner, one or more kinds of services involving the use  
11 of accounting or auditing skills, including the issuance of  
12 reports on financial statements, or of one or more kinds of  
13 management advisory, financial advisory, or consulting  
14 services, or the preparation of tax returns or the furnishing  
15 of advice on tax matters.

16 Sec. 2. Section 542C.3, subsection 4, paragraph d, Code  
17 1995, is amended by striking the paragraph.

18 Sec. 3. Section 542C.3, subsection 5, paragraph b, Code  
19 1995, is amended by striking the paragraph.

20 Sec. 4. Section 542C.3, Code 1995, is amended by adding  
21 the following new subsection:

22 NEW SUBSECTION. 5A. A certified public accountant or  
23 accounting practitioner may accept commissions or contingent  
24 fees subject to the following:

25 a. (1) A certified public accountant or accounting  
26 practitioner shall not for a commission recommend or refer to  
27 a client any product or service, shall not for a commission  
28 recommend or refer any product or service to be supplied by a  
29 client, and shall not receive a commission from a client, if  
30 the certified public accountant or accounting practitioner, or  
31 a person associated with the certified public accountant or  
32 accounting practitioner in the practice of public accounting,  
33 also performs for that client any of the following:

34 (a) An audit or review of a financial statement.

35 (b) A compilation of a financial statement if the

1 certified public accountant or accounting practitioner  
2 expects, or reasonably might expect, that a third party will  
3 use the financial statement, and the compilation report, of  
4 which the financial statement is a part, does not disclose a  
5 lack of independence.

6 (c) An examination of prospective financial information.

7 (2) The prohibition in subparagraph (1) applies during the  
8 period in which the certified public accountant or accounting  
9 practitioner, or a person associated with the certified public  
10 accountant or accounting practitioner in the practice of  
11 public accounting, is engaged to perform any of the services  
12 listed in subparagraph (1), subparagraph subdivision (a), (b),  
13 or (c), and the period covered by any historical financial  
14 statements related to such services.

15 (3) A certified public accountant or accounting  
16 practitioner engaged in the practice of public accounting who  
17 is not prohibited from performing services for a commission or  
18 receiving a commission, and who is paid or expects to be paid  
19 a commission, shall disclose that fact to any person or entity  
20 to whom the certified public accountant or accounting  
21 practitioner recommends or refers a product or service to  
22 which the commission relates.

23 b. A certified public accountant or accounting  
24 practitioner engaged in the practice of public accounting  
25 shall not receive or agree to receive a contingent fee from a  
26 client for either of the following:

27 (1) Performance of any professional services for a client  
28 for whom the certified public accountant or accounting  
29 practitioner, or person associated with the public accountant  
30 or accounting practitioner in the practice of public  
31 accounting, performs any of the following:

32 (a) An audit or review of a financial statement.

33 (b) A compilation of a financial statement if the  
34 certified public accountant or accounting practitioner  
35 expects, or reasonably might expect, that a third party will

1 use the financial statement, and the compilation report, of  
2 which the financial statement is a part, does not disclose a  
3 lack of independence.

4 (c) An examination of prospective financial information.

5 (2) Preparation of an original or amended tax return or  
6 claim for a tax refund.

7 The prohibition in subparagraph (1) applies during the  
8 period in which the certified public accountant or accounting  
9 practitioner is engaged to perform any of the services listed  
10 in subparagraph (1), subparagraph subdivision (a), (b), or  
11 (c), and the period covered by any historical financial  
12 statements involved related to such services.

13 c. A certified public accountant or accounting  
14 practitioner who accepts a referral fee for recommending or  
15 referring any service of a certified public accountant or  
16 accounting practitioner to any person or entity, or who pays a  
17 referral fee to obtain a client, shall disclose the acceptance  
18 or payment of such fee to the client.

19 d. A fee charged by a certified public accountant or  
20 accounting practitioner may vary depending on the complexity  
21 of the services rendered.

22 Sec. 5. Section 542C.3, subsection 6, Code 1995, is  
23 amended to read as follows:

24 6. The board shall establish rules relative to the conduct  
25 of practice as a certified public accountant and accounting  
26 practitioner in respect to the enumerated items in subsections  
27 4, and 5, and 5A, but this direction is not a limitation upon  
28 the rights of the board to make and adopt any rules relating  
29 to the conduct of certified public accountants or accounting  
30 practitioners which are not specifically enumerated in this  
31 chapter.

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#### EXPLANATION

33 This bill establishes limitations on when a commission or a  
34 contingent fee may be paid to a certified public accountant or  
35 an accounting practitioner.

1 Section 542C.2 is amended by adding definitions for the  
2 terms "commission" and "contingent fee".

3 Section 542C.3 is amended by striking contingent fees from  
4 the list of items concerning which the board is to adopt  
5 rules. The section is also amended by striking language  
6 prohibiting the acceptance of a commission, brokerage, or  
7 other participation in the fees, charges, or profits of work  
8 recommended or turned over to the laity as incident to  
9 services for clients.

10 Section 542C.3 is amended by creating a new subsection 5A  
11 which relates to the fees and commissions which a certified  
12 public accountant or accounting practitioner may accept. The  
13 subsection provides that a certified public accountant or  
14 accounting practitioner shall not for a commission recommend  
15 or refer to a client any product or service, shall not for a  
16 commission recommend or refer any product or service to be  
17 supplied by a client, and shall not receive a commission from  
18 a client, when the certified public accountant or accounting  
19 practitioner, or a person associated with the certified public  
20 accountant or accounting practitioner in the practice of  
21 public accounting, also performs certain other identified  
22 services for that client. The subsection also prohibits a  
23 certified public accountant or accounting practitioner from  
24 accepting a contingent fee from a client if certain other  
25 identified services are performed for the client, and  
26 prohibits the acceptance of a contingent fee for the  
27 preparation of an original or amended tax return or claim for  
28 a tax refund.

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GIPP, Ch  
Ertl  
Connors  
Larkin  
Tyrrell

HSB 524

STATE GOVERNMENT

Succeeded By  
SF/HF 2247

HOUSE FILE \_\_\_\_\_

BY (PROPOSED COMMITTEE ON  
STATE GOVERNMENT BILL BY  
CHAIRPERSON MARTIN)

Passed House, Date \_\_\_\_\_ Passed Senate, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

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31 a person associated with the certified public accountant or  
32 accounting practitioner in the practice of public accounting,  
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35 (b) A compilation of a financial statement if the

1 certified public accountant or accounting practitioner  
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3 use the financial statement, and the compilation report, of  
4 which the financial statement is a part, does not disclose a  
5 lack of independence.

6 (c) An examination of prospective financial information.

7 (2) The prohibition in subparagraph (1) applies during the  
8 period in which the certified public accountant or accounting  
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HOUSE FILE 2247

AN ACT

RELATING TO PERMISSIBLE FEES AND COMMISSION TO BE PAID  
TO CERTIFIED PUBLIC ACCOUNTANTS AND ACCOUNTING  
PRACTITIONERS.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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(a) An audit or review of a financial statement.

(b) A compilation of a financial statement if the certified public accountant or accounting practitioner expects, or reasonably might expect, that a third party will use the financial statement, and the compilation report, of which the financial statement is a part, does not disclose a lack of independence.

(c) An examination of prospective financial information.

(2) The prohibition in subparagraph (1) applies during the period in which the certified public accountant or accounting practitioner, or a person associated with the certified public accountant or accounting practitioner in the practice of public accounting, is engaged to perform any of the services listed in subparagraph (1), subparagraph subdivision (a), (b), or (c), and the period covered by any historical financial statements related to such services.

(3) A certified public accountant or accounting practitioner engaged in the practice of public accounting who is not prohibited from performing services for a commission or receiving a commission, and who is paid or expects to be paid a commission, shall disclose that fact to any person or entity to whom the certified public accountant or accounting practitioner recommends or refers a product or service to which the commission relates.

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(1) Performance of any professional services for a client for whom the certified public accountant or accounting practitioner, or person associated with the public accountant or accounting practitioner in the practice of public accounting, performs any of the following:

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(2) Preparation of an original or amended tax return or claim for a tax refund.

The prohibition in subparagraph (1) applies during the period in which the certified public accountant or accounting practitioner is engaged to perform any of the services listed in subparagraph (1), subparagraph subdivision (a), (b), or (c), and the period covered by any historical financial statements involved related to such services.

c. A certified public accountant or accounting practitioner who accepts a referral fee for recommending or referring any service of a certified public accountant or accounting practitioner to any person or entity, or who pays a referral fee to obtain a client, shall disclose the acceptance or payment of such fee to the client.

d. A fee charged by a certified public accountant or accounting practitioner may vary depending on the complexity of the services rendered.

Sec. 5. Section 542C.3, subsection 6, Code 1995, is amended to read as follows:

6. The board shall establish rules relative to the conduct of practice as a certified public accountant and accounting practitioner in respect to the enumerated items in subsections

4, and 5, and 5A, but this direction is not a limitation upon the rights of the board to make and adopt any rules relating to the conduct of certified public accountants or accounting practitioners which are not specifically enumerated in this chapter.

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RON J. CORBETT  
Speaker of the House

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LEONARD L. BOSWELL  
President of the Senate

I hereby certify that this bill originated in the House and is known as House File 2247, Seventy-sixth General Assembly.

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ELIZABETH ISAACSON  
Chief Clerk of the House

Approved March 20, 1996

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TERRY E. BRANSTAD  
Governor

**HF 2247**