

MINNESOTA RULES 1994

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CHAPTER 1100 BOARD OF ACCOUNTANCY LICENSING AND PRACTICE

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ADMINISTRATION

1100.0100 DEFINITIONS.

Subpart 1 **Scope.** For the purposes of this chapter, the terms in this part have the meanings given them.

Subp 1a. **AICPA or institute.** "AICPA" or "institute" means the American Institute of Certified Public Accountants

Subp 1b **Applicant.** "Applicant" means a person applying to take the uniform Certified Public Accountant examination.

Subp 1c **Board.** "Board" means the Minnesota Board of Accountancy.

[For text of subs 2 and 3, see M.R.]

Subp 3a **Certificate holder.** "Certificate holder" means a person who has passed the uniform Certified Public Accountant examination and the Minnesota ethics examination and is not licensed

Subp 3b **Client.** "Client" means the person or entity which retains a certified public accountant, a licensed public accountant, or the accountant's firm, engaged in the practice of public accounting, for the performance of professional accounting services

[For text of subp 4, see M.R.]

Subp 4a **Enterprise.** "Enterprise" means any person or entity, whether organized for profit or not, for which a CPA or LPA provides services

Subp 4b. **Firm.** "Firm" means a partnership, professional corporation, limited liability company, limited liability partnership, or association engaged in the practice of public accounting, including individual partners or shareholders

Subp. 4c **Financial statements.** "Financial statements" means statements and footnotes related to the statements that purport to show financial position or results of operation which are related to a point in time or periods of time, or statements of cash flow, which relate to periods of time, and statements which use cash or other incomplete basis of accounting Balance sheets, statements of income, statements of retained earnings, statements of cash flow, and statements of changes in owners' equity are financial statements

Incidental financial data included in management advisory services reports to support recommendations to a client, and tax returns and supporting schedules do not, for this pur-

pose, constitute financial statements, and the statement, affidavit, or signature of preparers required on tax returns neither constitutes an opinion on financial statements nor requires a disclaimer of such opinion

Subp 5 **In public practice.** "In public practice" means a CPA or LPA individually or a CPA or LPA firm that performs professional accounting services for a fee within this state

[For text of subps 6 and 7, see M R]

Subp 7a **Licensee.** "Licensee" means a person holding an active or inactive license issued under Minnesota Statutes, section 326 20, subdivision 1

[For text of subps 8 and 9, see M R]

Subp 10 **Practice of public accounting.** "Practice of public accounting" means the performance or the offering to perform by a person or firm holding itself out to the public as a licensee, for a client or potential client, of one or more kinds of services involving the use of accounting or auditing skills, including the issuance of reports on financial statements, or of one or more kinds of management advisory, financial advisory or consulting services, or the preparation of tax returns or the furnishing of advice on tax matters

Subp 11 **Professional accounting services.** "Professional accounting services" means one or more types of services performed in the practice of public accounting

Statutory Authority: *MS s 326 18*

History: *18 SR 2360*

1100.0200 INTERPRETATION OF RULES.

[For text of subpart 1, see M R]

Subp 2 **Interpretation powers of board.** Nothing contained in this chapter shall be deemed to prohibit or limit in any way the exercise by the board of powers granted to it by Minnesota Statutes, sections 319A 01 to 319A 22, 326 17 to 326 229, 326 53, and 214 001 to 214 12

[For text of subps 2a and 3, see M R]

Statutory Authority: *MS s 326 18*

History: *18 SR 2360*

1100.0600 COMMUNICATIONS.

An applicant, certificate holder, or licensee shall respond to communications from the board, committees of the board, or the attorney general on behalf of the board within 30 days of the mailing of communications, unless an earlier response is requested within the communications. An applicant, certificate holder, or licensee shall appear before the board, committees of the board, or the attorney general on behalf of the board when requested to do so and provide copies of all pertinent records, including handwriting samples, to assist the board in its deliberations. Communications should be addressed to "Executive Secretary, Board of Accountancy"

Statutory Authority: *MS s 326 18*

History: *18 SR 2360*

1100.0650 AGREEMENT TO OBSERVE CODE.

The act of filing an application for examination, certification, or licensure constitutes an agreement upon the part of the applicant to observe the Code of Professional Conduct, parts 1100 4000 to 1100 6100. Also, in the practice of public accounting and in rendering professional accounting services, a CPA and LPA shall adhere to the code

Statutory Authority: *MS s 326 18*

History: *18 SR 2360*

1100.0900 EXPIRATION OF APPLICATION.

An application for CPA examination or reexamination expires five years from the date of the board's approval to sit for the initial examination. Once an application has expired, the board shall require a new application, new supporting documentation, and examination in all sections if the file has not been reactivated during the five-year period

Statutory Authority: *MS s 326 18*

History: *18 SR 1471*

1100.1300 EXAMINATIONS AND CERTIFICATION FOR CPA APPLICANTS.

[For text of subps 1 to 5, see M R]

Subp 6 **Attendance.** An applicant shall be present and prepared to engage in the work promptly at the hours appointed. An applicant who is unable to be present shall notify the board as soon as reasonably possible, but no later than 4 30 p m on the day before the first day of the complete examination. Failure to do so shall be considered just cause for exclusion and forfeiture of the examination fee. An applicant who is unable to be present at the examination for which an application was approved by the board shall reapply for a later examination consistent with the examination application deadlines in part 1100.0800 and furnish current information on forms provided by the board. First time applicants shall take all sections of the examination. An applicant shall apply for and be present at the next examination given or the applicant's fee shall be forfeited.

[For text of subps 7 and 8, see M R]

Subp 9. **Passing grade.** To pass an examination an applicant must receive a grade of at least 75 percent in each of the sections covered by the examination.

[For text of subp 10, see M.R]

Statutory Authority: *MS s 326 18*

History: *18 SR 1471*

1100.1400 CPA REEXAMINATIONS.

Subpart 1 **Applicants who fail three or more sections.** An applicant who fails three or more sections and receives no grade less than 50 shall be allowed to sit for reexamination at the next examination given and shall be required to retake all sections of the examination. An applicant who fails three or more sections and receives a grade of less than 50 in any section shall not be allowed to sit for reexamination at the next examination but may sit for subsequent examinations.

Subp 2 **Applicants who pass two sections.** An applicant who has passed two of the sections given in the written examination and received no grade less than 50 in the sections failed shall be reexamined only in the sections failed.

An applicant who passed two of the sections given in the examination and received one or more grades less than 50 has failed the examination and shall retake all sections of the examination.

Subp 3 **Applicants who pass three sections.** An applicant who has passed three of the sections in one examination shall be reexamined only in the section failed.

Subp 4 **Application for reexamination.** An applicant for reexamination shall apply for and be reexamined in all failed sections at each examination for which the applicant applies.

Subp 5 **Conditioning.** An applicant for reexamination under subparts 2 and 3 shall be reexamined in all sections unless the applicant passes the remaining sections within the next five examinations given by the board.

Statutory Authority: *MS s 326 18*

History: *18 SR 1471*

1100.1500 RECIPROCITY WITH OTHER STATES.

[For text of subpart 1, see M.R]

Subp 2 **Application.** An applicant who has passed two or more sections of the uniform examination under the jurisdiction of the accountancy board of another state may request that the board recognize and adopt said passing grades. The request shall be granted if the board determines the applicant satisfied all of the qualifications which would have been required had application been made to the Minnesota board on the date of original application to the other accountancy board.

[For text of subp 3, see M R]

Statutory Authority: *MS s 326 18*

History: *18 SR 1471*

1100.1902 FORM OF PRACTICE AND NAME.

Subpart 1. **Forms of practice.** A licensee may practice public accounting, whether as an owner or employee, only in the form of a sole proprietorship, a partnership, or a professional corporation, organized in accordance with the applicable provisions of Minnesota laws governing the practice of public accounting and the organization and operation of partnerships and professional corporations

Subp 2 **Names.** A licensee shall not practice under a firm name which includes any fictitious name, indicates specialization, or is misleading as to the type of organization (proprietorship, partnership, or corporation), as to the ownership of the organization, or as to the ability, resources, or size of the organization

Subp 3 **Names of past or deceased partners or shareholders.** Names of one or more past partners or shareholders may be included in the firm name of a successor partnership or corporation Where a partner or shareholder survives the death or withdrawal of all other partners or shareholders, the remaining partner or shareholder may continue to practice under the partnership or corporation name for up to two years after becoming a sole practitioner or a professional corporation with one shareholder No name shall be used when the withdrawn partner or shareholder continues to practice public accounting or does not consent to the use of the name

Subp 4 **Other designations.** For purposes of Minnesota Statutes, section 326 211, subdivision 9, the term "other similar designations" includes the designation "and Associates" and any abbreviation

Statutory Authority: *MS s 326 18*

History: *17 SR 2274, 18 SR 2360*

1100.2110 TYPES OF LICENSES.

A license is required for persons who.

A engage in the practice of public accounting, and

B hold certified public accountant or licensed public accountant certificates, are eligible for licensure as certified public accountants or licensed public accountants, and who are self-employed or employed by certified public accountants, licensed public accountants, or certified public accountant or licensed public accountant corporations or partnerships For purposes of this chapter, such a license shall be referred to as an active license.

Persons who have held active licenses in the past who are not currently engaged in the practice of public accounting and are exempt from the continuing professional education requirements of parts 1100.6400 to 1100 7900 pursuant to part 1100 6700, subpart 1, shall be licensed For purposes of this chapter, such a license shall be referred to as an inactive license.

Statutory Authority: *MS s 326 18*

History: *18 SR 1471*

1100.3000 CORPORATION'S LICENSE APPLICATION.

An application for license must be made on the form provided by the board and must be accompanied by a certified copy of the articles of incorporation filed with the Minnesota secretary of state Applications must be accompanied by the appropriate fee as provided in part 1100 3600, in the form of a money order or check made payable to "Minnesota Board of Accountancy."

A corporation incorporated as a business corporation under Minnesota Statutes, chapter 302A, before December 31, 1985, shall be licensed by the board provided that the corporation amends its articles to conform to Minnesota Statutes, sections 319A 07 to 319A.17 and 319A.21

To qualify under this part, the amended articles must be in effect and filed with the board by March 1, 1992

A corporation that does not amend and file its articles by March 1, 1992, and a corporation applying for initial licensure after December 31, 1985, must incorporate under the Minnesota Professional Corporations Act, Minnesota Statutes, chapter 319A.

To qualify under this part, a corporation incorporated in another state must be incorporated as a corporation under the laws of that state provided the laws are at least equivalent to the Minnesota Professional Corporations Act, Minnesota Statutes, chapter 319A.

A foreign corporation, incorporated as a business corporation, shall amend its articles, bylaws, and buy-sell agreements in accordance with the Minnesota Professional Corporations Act, Minnesota Statutes, chapter 319A

Statutory Authority: *MS s 326 18*

History: *18 SR 1471*

1100.3100 APPLICATION FOR INITIAL CORPORATION LICENSE.

The application for an initial corporation license shall be filed with the board accompanied by a fee as provided in part 1100.3600, subpart 1, item G, and shall include the following

[For text of items A to D, see M R.]

Statutory Authority: *MS s 326.18*

History: *18 SR 1471*

1100.3200 NOTICE OF CORPORATION'S LICENSE REQUIREMENTS; RESPONSIBILITY FOR APPLICATION AND FEE.

The board shall notify each currently licensed corporation of the licensing requirements for the succeeding year. In the absence of such notification, it is the responsibility of each corporation in public practice to apply for a license and pay the appropriate fee as provided in part 1100.3600, subpart 2. The corporation is responsible for determining that each of its CPA or LPA shareholders and employees practicing public accounting in Minnesota is also currently licensed as an individual with the board.

Statutory Authority: *MS s 326 18*

History: *18 SR 1471*

1100.3600 FEES.

Subpart 1. **Initial application fees.** Applications shall be accompanied by fees payable to the "Minnesota Board of Accountancy" in the amounts described in items A to G

[For text of item A, see M R]

B Application for certified public accountant reexamination in failed sections, \$40 per section but not in excess of \$150

[For text of items C to F, see M R]

G Application for initial corporation license, \$100

Subp 2 **Annual license renewal fees.** Annual license renewal fees shall be as follows

[For text of items A to C, see M R.]

D corporations, \$35.

[For text of subps 2a to 4, see M.R]

Statutory Authority: *MS s 326 18*

History: *18 SR 1471*

1100.3800 [Repealed, 18 SR 2360]

1100.3900 [Repealed, 18 SR 2360]

CODE OF PROFESSIONAL CONDUCT

1100.4000 AUTHORITY FOR RULES.

Parts 1100 4000 to 1100.6100 are adopted under the authority granted by Minnesota Statutes, section 326.18, which delegates to the board the power and duty to make rules of professional conduct.

Statutory Authority: *MS s 326 18*

History: *18 SR 2360*

1100.4200 SCOPE OF CODE OF PROFESSIONAL CONDUCT.

Subpart 1. **Limitations.** The rules of professional conduct which follow apply to all services performed in the practice of public accounting including tax and management advisory services except

[For text of item A, see M R]

B that a licensee who is practicing outside the United States shall not be subject to discipline for departing from parts 1100 4000 to 1100 6100 so long as the licensee's conduct is in accord with the rules of the organized accounting profession in the country in which the licensee is practicing. However, where a licensee's name is associated with financial statements in such a manner as to imply that he or she is acting as an independent public accountant and under circumstances that would entitle the reader to assume that United States practices were followed the licensee shall comply with the requirements of parts 1100 4800 and 1100 4900

A licensee engaged in the practice of public accounting shall observe all the rules of professional conduct. An individual with an inactive license or a retiree not engaged in the practice of public accounting shall observe only parts 1100.0600, 1100 4300, and 1100 4500 since all other rules of professional conduct relate only to the practice of public accounting

[For text of subp 2, see M R]

Statutory Authority: *MS s 326 18*

History: *18 SR 2360*

1100.4300 ACTS DISCREDITABLE.

Subpart 1 **Generally.** A licensee shall not commit an act discreditable to the profession. Parts 1100 4000 to 1100 6100 do not comprise all acts that may be considered incompatible with the obligations and responsibilities imposed by professional status or discreditable or harmful even though not specifically mentioned or described in this part. Any licensee may be censured, suspended, or expelled for cause by the board, after due opportunity of a hearing upon charges, whether or not the alleged misconduct is specifically enumerated or described in this part

Subp 2 **Discrimination in employment practices.** Discrimination in employment that violates Minnesota Statutes, section 363 03, is presumed to constitute an act discreditable to the profession

Subp 3 **Negligence in preparation of financial statements or records.** A licensee who through negligence makes, permits, or directs another to make false and misleading entries in the financial statements or records of an entity shall be considered to have committed an act discreditable to the profession

Subp 4 **Attest or similar services.** When a licensee agrees to perform an attest or similar service for the purpose of reporting to governmental bodies, commissions, or regulatory agencies, the licensee must follow their requirements, in addition to the generally accepted auditing standards incorporated by reference in part 1100.4650, where applicable. Failure to follow the requirements is an act discreditable to the profession, unless the licensee discloses in the licensee's report that the requirements were not followed and gives the reasons

Statutory Authority: *MS s 326 18*

History: *18 SR 2360*

1100.4400 INDEPENDENCE.

Subpart 1 **Financial statements.** A licensee shall be independent when the licensee or the licensee's firm performs

- A. an audit or review of a financial statement,
- B a compilation of a financial statement when the licensee expects, or reasonably might expect, that a third party will use the financial statement and the licensee's compilation report does not disclose a lack of independence, or
- C an examination of prospective financial information

Subp 2 **Conflicts of interest.** Independence shall be considered to be impaired if, for example, a licensee had any of the following transactions, interests, or relationships

A While providing professional accounting services for the client, or at the time of expressing an opinion, a licensee or a licensee's firm

(1) had or was committed to acquire any direct or material indirect financial interest in the enterprise,

(2) was a trustee of any trust or executor or administrator of any estate if such trust or estate had or was committed to acquire any direct or material indirect financial interest in the enterprise,

(3) had any joint, closely held business investment with the enterprise or with any officer, director, or principal stockholder that was material in relation to the licensee's net worth or to the net worth of the licensee's firm, or

(4) had any loan to or from the enterprise or any officer, director, or principal stockholder of the enterprise

B During the period covered by the financial statements, while providing professional accounting services for the client, or at the time of expressing an opinion, a licensee or a licensee's firm

(1) was connected with the enterprise as a promoter, underwriter, or voting trustee, as a director or officer, or in any capacity equivalent to that of a member of management or an employee, or

(2) was a trustee for any pension or profit-sharing trust of the enterprise

Items A and B are examples and are not intended to be all-inclusive

Statutory Authority: *MS s 326 18*

History: *18 SR 2360*

1100.4500 INTEGRITY AND OBJECTIVITY; CONFLICT OF INTEREST.

A In the performance of any professional accounting services, a licensee shall maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others

B A licensee who knowingly makes, or permits or directs another to make, false and misleading entries in an entity's financial statements or records shall be considered to have knowingly misrepresented facts

C A conflict of interest may occur if a licensee performs a professional accounting service for a client or employer, and the licensee or the licensee's firm has a significant relationship with another person, entity, product, or service that could be viewed as impairing the licensee's objectivity. If this significant relationship is disclosed to and consent is obtained from the client, employer, or other appropriate parties, this part shall not operate to prohibit the performance of the professional accounting service

D Certain professional engagements require independence. Independence impairments cannot be eliminated by disclosure and consent

Statutory Authority: *MS s 326 18*

History: *18 SR 2360*

1100.4600 [Renumbered 1100 4950]

1100.4650 INCORPORATION BY REFERENCE.

For the purposes of parts 1100 4300, 1100 4700, 1100 4800, and 1100 4900, the following documents are incorporated by reference, are subject to frequent change, and are available through the state law library

A AICPA Professional Standards, Volumes 1 and 2, published for the American Institute of Certified Public Accountants by Commerce Clearing House, Inc (June 1, 1993),

B Current Text, Accounting Standards, published by the Financial Accounting Standards Board (June 1, 1993), and

[For text of item C, see M R]

Statutory Authority: *MS s 326 18*

History: *18 SR 2360*

1100.4900 ACCOUNTING PRINCIPLES.

A licensee shall not express an opinion that financial statements are presented in conformity with generally accepted accounting principles if the statements contain any departure from accounting principles in AICPA Professional Standards, Volume 1 and 2, or Current

Text, Accounting Standards, as of June 1, 1993, incorporated by reference in part 1100.4650, item A or B, which has a material effect on the statements taken as a whole, unless the licensee can demonstrate that due to unusual circumstances the financial statements would otherwise have been misleading. In such cases the licensee's report must describe the departure, the approximate effects, if practicable, and the reasons why compliance with the principle would result in an otherwise misleading statement.

Statutory Authority: *MS s 326 18*

History: *18 SR 2360*

1100.4950 TAX PRACTICE.

In tax practice, a licensee may resolve doubt in favor of the client as long as there is reasonable support for that position.

Statutory Authority: *MS s 326 18*

History: *17 SR 1279; 18 SR 2360*

1100.5100 CONFIDENTIAL CLIENT INFORMATION.

A licensee shall not disclose any confidential information obtained in the course of a professional engagement except with the consent of the client.

This part shall not be construed to relieve a licensee of the obligation under parts 1100.4800 and 1100.4900, to affect in any way compliance with a validly issued subpoena or summons enforceable by order of a court, to prohibit review of a licensee's professional practices as part of voluntary quality review under board authorization or to preclude a licensee from responding to any inquiry made by the board, under state statutes.

Members of the board and professional practice reviewers under board authorization shall not disclose any confidential client information which comes to their attention from licensees in disciplinary proceedings or otherwise in carrying out their official responsibilities. However, this prohibition shall not restrict the exchange of information with an aforementioned duly constituted investigative or disciplinary body.

This prohibition shall also not be construed to prohibit the review of a professional CPA or LPA practice.

A review of a CPA's or LPA's professional practice is authorized to include a review in conjunction with a prospective purchase, sale, or merger of all or part of the practice. The licensee must take appropriate precautions, for example, through a written confidentiality agreement, so that the prospective purchaser does not disclose any information obtained in the course of the review, since the information is deemed to be confidential client information.

Licensees reviewing a practice in connection with a prospective purchase or merger shall not use to their advantage nor disclose any confidential client information that comes to their attention.

Statutory Authority: *MS s 326 18*

History: *18 SR 2360*

1100.5200 [Repealed, 18 SR 2360]

1100.5300 FURNISHING INFORMATION TO CLIENTS.

Retention of client records after a demand is made for them is an act discreditable to the profession.

A client's records are any accounting or other records belonging to the client that were provided to the licensee by or on behalf of the client. If an engagement is terminated prior to completion, the licensee is required to return only client records.

A licensee's workpapers, including, but not limited to, analyses and schedules prepared by the client at the request of the licensee, are the licensee's property, not client records, and need not be made available.

In some instances a licensee's workpapers contain information that is not reflected in the client's books and records, with the result that the client's financial information is incomplete. This includes

A. adjusting, closing, combining, or consolidating journal entries, and

B information normally contained in books of original entry and general ledgers or subsidiary ledgers.

In these instances when an engagement has been completed, the information must also be made available to the client upon request. However, the licensee may require that fees due the licensee with respect to the completed engagements be paid before the information is provided.

Once the licensee has complied with the requirements in this part, the licensee need not comply with any subsequent requests to again provide the information.

Statutory Authority: *MS s 326 18*

History: *18 SR 2360*

1100.5400 [Repealed, 18 SR 2360]

1100.5500 [Repealed, 18 SR 2360]

1100.5600 [Repealed, 18 SR 2360]

1100.5800 COMMISSIONS AND REFERRAL FEES.

Subpart 1 **Prohibited commissions.** A licensee shall not for a commission recommend or refer to a client any product or service, or for a commission recommend or refer to any product or service to be supplied by a client, or receive a commission, when the licensee or the licensee’s firm also performs for that client.

A. an audit or review of a financial statement,

B a compilation of a financial statement when the licensee expects, or reasonably might expect, that a third party will use the financial statement and the licensee’s compilation report does not disclose a lack of independence; or

C an examination of prospective financial information.

This prohibition applies during the period in which the licensee is engaged to perform any of the services listed in items A to C and the period covered by any historical financial statements involved in such listed services.

Subp 2 **Disclosure of permitted commissions.** A licensee who is not prohibited by this part from performing services for 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 licensee recommends or refers a product or service to which the commission relates.

Subp 3. **Referral fees.** Any licensee who accepts a referral fee for recommending or referring any service of a CPA or LPA to any person or entity or who pays a referral fee to obtain a client shall disclose such acceptance or payment to the client.

Statutory Authority: *MS s 326 18*

History: *18 SR 2360*

1100.5850 CONTINGENT FEES.

A licensee shall not:

A perform for a contingent fee any professional accounting services for, or receive such a fee from, a client for whom the licensee or the licensee’s firm performs

(1) an audit or review of a financial statement;

(2) a compilation of a financial statement when the licensee expects, or reasonably might expect, that a third party will use the financial statement and the licensee’s compilation report does not disclose a lack of independence; or

(3) an examination of prospective financial information, or

B prepare an original or amended tax return or claim for a tax refund for a contingent fee for any client.

The prohibition in item A applies during the period in which the licensee or the licensee’s firm is engaged to perform any of the services listed in item A and the period covered by any historical financial statements involved in the listed services.

Except as stated in the next sentence, a contingent fee is a fee established for the performance of any service pursuant to an arrangement in which no fee will be charged unless a

specified finding or result is attained or in which the amount of the fee is otherwise dependent upon the finding or result of the service. Solely for purposes of this part, fees are not regarded as being contingent if fixed by courts or other public authorities or, in tax matters, if determined based on the results of judicial proceedings or the findings of governmental agencies.

A licensee's fees may vary depending, for example, on the complexity of services rendered.

Statutory Authority: *MS s 326 18*

History: *18 SR 2360*

1100.5900 [Repealed, 18 SR 2360]

1100.6000 [Renumbered 1100 1902]

1100.6200 [Repealed, 18 SR 2360]

CONTINUING PROFESSIONAL EDUCATION

1100.6400 STATUTORY AUTHORITY; PURPOSE.

Under Minnesota Statutes, section 214 12, the board prescribes parts 1100 6400 to 1100 7800 to establish requirements of continuing professional education (CPE) to be met from time to time by licensees in order to maintain their professional knowledge and competence, as a condition to continuing to practice as licensed certified public accountants or licensed public accountants.

Statutory Authority: *MS s 326 18*

History: *18 SR 1471*

1100.6500 CONTINUING PROFESSIONAL EDUCATION REQUIREMENT.

Subpart 1 **Basic requirement.** Except as otherwise provided in subpart 2, all persons who renew their active licenses by December 31 as described in part 1100 2150 shall complete 120 hours of continuing professional education meeting the requirements of parts 1100 6800 to 1100 7800 by the preceding June 30 according to the schedule outlined in this subpart.

A Reporting Cycle A. All those licensees originally licensed in 1909 to 1977, and in 1980, 1983, 1986, 1989, and 1992 shall report 120 hours of CPE by June 30, 1996. Thereafter those licensees, new licensees licensed in the state's 1996 fiscal year (July 1, 1995 to June 30, 1996), and those licensees licensed every third fiscal year thereafter shall report 120 hours on each three-year anniversary of the date June 30, 1993.

B Reporting Cycle B. All those licensees originally licensed in 1978, 1981, 1984, 1987, and 1990 shall report 120 hours of CPE by June 30, 1994. Thereafter those licensees, new licensees licensed in the period January 1, 1993, to June 30, 1993, or in the state's 1994 fiscal year (July 1, 1993 to June 30, 1994), and those licensees licensed in every third fiscal year thereafter shall report 120 hours on each three-year anniversary of the date June 30, 1994.

C Reporting Cycle C. All those licensees originally licensed in 1979, 1982, 1985, 1988, and 1991 shall report 120 hours of CPE by June 30, 1995. Thereafter those licensees, new licensees licensed in the state's 1995 fiscal year (July 1, 1994 to June 30, 1995), and those licensees licensed in every third fiscal year thereafter shall report 120 hours on each three-year anniversary of the date June 30, 1995.

Subp 2 **Exceptions.** The board shall have authority to make exceptions for reasons of individual hardship including health, military service, foreign residency, retirement, or other good cause. Licensees have the burden of proving such hardship.

Subp 3 [Repealed, 18 SR 1471]

Subp 4 **Annual minimum CPE report.** Before July 1 of each year, every active licensee shall report a minimum of 20 continuing professional education credits to the board on the required form.

Subp 5 **License renewals.** Individual licenses will not be renewed until the CPE requirements in subparts 1 and 4 have been met.

Statutory Authority: *MS s 326 18*

History: *18 SR 1471*

1100.6700 COMPLIANCE AND EXCEPTIONS.

[For text of subs 1 to 3a, see M R]

Subp. 4 **Formerly active licensees reentering active public practice.** A formerly active licensee reentering public practice shall report continuing professional education as described in items A to C

A Before receipt of an active license and reentry into public practice, the formerly active licensee shall submit evidence of completion of 50 hours of continuing professional education meeting the requirements in parts 1100 6800 to 1100 7800 in the last 12 months prior to application for active licensure

[For text of item B, see M R]

C Once relicensed as active, the licensee shall be placed on a three-year reporting cycle as outlined in part 1100.6500, subpart 1, based on the date the licensee was originally approved for licensure and shall report continuing professional education accordingly

[For text of subp 6, see M R]

Statutory Authority: *MS s 326 18*

History: *18 SR 1471*

1100.6900 ACCEPTABLE SUBJECT MATTER AND PROGRAMS.

The following general subject matters are acceptable so long as they contribute to the professional competence of the individual practitioner:

[For text of items A to K, see M R]

L administrative practice, for example, engagement letters, fee structures, or personnel

Areas other than those in items A to L may be acceptable if the licensee can demonstrate that they contribute to professional competence The responsibility for substantiating that a particular program is acceptable and meets the requirements rests only with the licensee

No more than 40 hours of CPE in a three-year cycle will be given for the following types of courses (1) behavioral courses, (2) motivational courses, (3) computer courses, and (4) management courses, unless it can be shown by the licensee that the course is directly related to the practice of public accounting

Statutory Authority: *MS s 326 18*

History: *18 SR 1471*

1100.7900 [Repealed, 18 SR 1471]

PRACTICE MONITORING**1100.9100 DEFINITIONS.**

Subpart 1 **Scope.** For the purpose of parts 1100 9100 to 1100 9900 the terms in this part have the meanings given

Subp 2 **Adverse report.** "Adverse report" is a report that describes nonconformance with the professional standards established by the AICPA in Standards for Performing and Reporting on Quality Reviews, effective April 1, 1994

Subp 3 **AICPA.** "AICPA" means the American Institute of Certified Public Accountants

Subp 4 **Licensed practice unit or LPU.** "Licensed practice unit" or "LPU" means a corporation, partnership, limited liability company (LLC), limited liability partnership (LLP), or sole proprietorship licensed under Minnesota Statutes, section 326.20, to practice public accounting in Minnesota

Subp 5 **Qualified report.** "Qualified report" means a report that describes deficiencies in the work reviewed or the related quality control system, or both, when compared with the professional standards established by the AICPA in Standards for Performing and Reporting on Quality Reviews, effective April 1, 1994

Subp 6 **Quality review.** "Quality review" means a study, appraisal, or review of one or more aspects of the professional work of a person or firm (LPU) in the practice of public ac-

countancy by a reviewer who meets the requirements of part 1100 9600. An on-site quality review shall include a review of the LPU's quality control system. An off-site quality review shall not

Subp 7 **Report acceptance body.** "Report acceptance body" means the organization that accepts the quality review report from the reviewer, reviews it, and determines what, if any, action the LPU shall take in order to bring the LPU's practice up to the professional standards set forth in part 1100 4650

Subp 8 **Reporting year.** "Reporting year" means the year after the quality review has been conducted It is the year in which the licensee will send the quality review report to the board.

Subp 9. **Reviewer.** "Reviewer" means the licensed individual or firm selected to conduct the quality review.

Subp 10 **Unqualified report.** "Unqualified report" means a report that describes no deficiencies in the work reviewed or the related quality control system, or both, when compared with the professional standards established by the AICPA in Standards for Performing and Reporting on Quality Reviews, effective April 1, 1994.

Subp 11 **Year of review.** "Year of review" means the year during which the quality review will be conducted

Subp 12 **Year under review.** "Year under review" means the year prior to the year in which the quality review is actually started It is the third and final year of a licensee's three-year reporting cycle

Statutory Authority: *MS s 326 18*

History: *19 SR 74*

1100.9150 INCORPORATION BY REFERENCE.

For purposes of part 1100.9100, Standards for Performing and Reporting on Quality Reviews, effective April 1, 1994, is incorporated by reference This document is published by the American Institute of Public Accountants, Inc , New York, New York 10036-8775 It is not subject to frequent change and is available at the state law library

Statutory Authority: *MS s 326 18*

History: *19 SR 74*

1100.9200 REQUIREMENT FOR QUALITY REVIEW; AREAS TO BE REVIEWED.

As a condition to renewal of its license pursuant to Minnesota Statutes, section 326 20, every LPU shall undergo a quality review in accordance with parts 1100 9100 to 1100 9900 once every three years. The on-site quality review is limited to the LPU's accounting and auditing practice and its related quality control system. The off-site quality review is limited to the LPU's financial statement practice and its related compilation and review reports.

Statutory Authority: *MS s 326 18*

History: *19 SR 74*

1100.9300 EXEMPTION FROM QUALITY REVIEW.

An LPU is exempt from the quality review requirement in part 1100 9200 if it annually represents to the board that it does not engage in audits, reviews, or compilations, that it does not intend to engage in such practices during the following year, and that it shall immediately notify the board in writing if it engages in such practices

The representation shall be made in writing, under oath, and upon forms provided by the board The representation shall be made annually at the time the LPU applies for renewal of its license

If an LPU under exemption notifies the board that it has performed an audit, review, or compilation, it shall undergo a quality review during the first full year after its initial acceptance of an engagement, or sooner at the request of the LPU

Statutory Authority: *MS s 326 18*

History: *19 SR 74*

1100.9400 INITIAL QUALITY REVIEW CYCLE.

Subpart 1 **Past participation in quality review.** LPUs that are participating in a quality review program on July 12, 1994, shall comply with items A to C

A LPUs whose year under review ended in 1993 shall have quality reviews performed in 1994, which will be their year of review, and submit the material specified in part 1100 9800 to their report acceptance bodies 30 days after receiving it from their reviewers, and to the board by June 30, 1995

B LPUs whose year under review ended in 1994 shall have quality reviews performed in 1995, which will be their year of review, and submit the material specified in part 1100 9800 to their report acceptance bodies 30 days after receiving it from their reviewers, and to the board by June 30, 1996

C LPUs whose year under review ended in 1995 shall have quality reviews performed in 1996, which will be their year of review, and submit the material specified in part 1100 9800 to their report acceptance bodies 30 days after receiving it from their reviewers, and to the board by June 30, 1997

Subp 2 **First time participation in quality review.** LPUs that did not participate in quality review programs prior to July 12, 1994, and are subject to the quality review programs for the first time, shall have reviews performed in either 1995 or 1996, which will be their year of review LPUs shall submit the material specified in part 1100 9800 to their report acceptance bodies and to the board according to the following schedule:

A. LPUs with license numbers whose last digit is even shall have quality reviews performed in 1995, and submit the material specified in part 1100 9800 to their report acceptance bodies 30 days after receiving it from their reviewers, and to the board by June 30, 1996

B LPUs with license numbers whose last digit is odd shall have quality reviews performed in 1996, and submit the material specified in part 1100 9800 to their report acceptance bodies 30 days after receiving it from their reviewers, and to the board by June 30, 1997

After the initial report, LPUs shall be required to report every three years on the anniversary of their first reporting date

Statutory Authority: *MS s 326 18*

History: *19 SR 74*

1100.9500 NEW LPUs; QUALITY REVIEW CYCLE.

As a condition of licensing, a new LPU shall undergo a quality review during the first full year after it becomes subject to the requirements for quality review, and shall report the material specified in part 1100 9800 to the board by June 30 of the second full year after becoming subject to the requirements for quality review

After the initial report, the LPU shall be required to report every three years on the anniversary of the June 30 reporting date

A new LPU is one that has not been previously licensed in Minnesota or has not had a quality review completed in the three-year period prior to application It does not include the following

A An LPU that has been previously licensed in this state and changes its name or the legal form of its practice, but retains the same practice

B A new partnership, corporation, LLC, or LLP formed by more than one previous LPU which were already scheduled for quality review. The quality review of this LPU shall be conducted in the later of the years for which each of the former LPUs was scheduled.

C. A partnership, corporation, LLC, or LLP that is dissolved with each individual LPU taking clients from the partnership or corporation. The quality review for each of these individual LPUs remains in the same year to which the original partnership, corporation, LLC, or LLP was assigned

D A partnership, corporation, LLC, or LLP that is dissolved with one partner or shareholder taking all of the existing clients The quality review for the LPU taking over the

existing business remains in the year to which the partnership, corporation, LLC, or LLP was originally assigned

Statutory Authority: *MS s 326 18*

History: *19 SR 74*

1100.9600 QUALIFICATIONS OF REVIEWER.

The reviewer shall have the following minimum qualifications

A be licensed to practice as a CPA or LPA, or a CPA, LPA, LLC, or LLP firm, by any state, and have undergone at least one quality review,

B have knowledge and experience with the type of reports and financial statements to be reviewed, including experience in supervision of the preparation of such reports and statements,

C be independent, as defined by part 1100 4400, of the LPU under review,

D. have no conflict of interest, as defined in part 1100 4500,

E be familiar with all services in the area of auditing and accounting provided by the LPU subject to review,

F. be familiar with the procedure for conducting a quality review in accordance with the standards set forth by the AICPA; and

G have attended a quality review seminar sponsored by the board, the AICPA, the National Society of Public Accountants, another state board, or another professional accounting organization

Statutory Authority: *MS s 326 18*

History: *19 SR 74*

1100.9700 QUALIFICATIONS OF REPORT ACCEPTANCE BODIES.

The AICPA is an approved report acceptance body

The Minnesota Association of Public Accountants, the Minnesota Society of Certified Public Accountants, other state accountancy boards, and any other organization able to demonstrate that it will fulfill its responsibilities in accordance with the review standards as established by the AICPA, and incorporated by reference in part 1100 9150, may apply to the board to be considered a report acceptance body The board shall approve applications to be considered a report acceptance body if the applicant demonstrates that it has or will fulfill its responsibilities in accordance with the review standards as established by the AICPA, and incorporated by reference in part 1100 9150 Approval shall be withdrawn if a report acceptance body fails to fulfill its responsibilities in accordance with the review standards as established by the AICPA, and incorporated by reference in part 1100 9150

The report acceptance body shall not make membership a condition of acting as a report acceptance body for any LPU

Statutory Authority: *MS s 326 18*

History: *19 SR 74*

1100.9800 REPORT TO BOARD.

Subpart 1 **Required submittals.** By June 30 of each year, each LPU that is scheduled to report that year shall submit the following material to the board

A a copy of the qualified, adverse, or unqualified report issued by the reviewer, including any letters of comment and responses,

B the final letter of approval from the report acceptance body, and

C. any agreements to correct deficiencies that have been entered into between the LPU and the report acceptance body

The board shall review this material prior to rehashing the LPU

Failure to file the required material by June 30 of its reporting year shall be cause for discipline against the LPU's certificate and license

In the case of a qualified or adverse report, where the report acceptance body and the LPU have entered into an agreement to correct deficiencies, failure by the LPU to abide by that agreement shall be grounds for discipline against the LPU's certificate and license

Subp 2 **Board requirements.** In addition to any agreement made between the report acceptance body and the LPU, the board may

A require that the members of the LPU firm complete continuing education in the areas of deficiency in addition to the continuing professional education hours required in part 1100 6500,

B require that the LPU maintain a minimum library of source materials designed to provide the LPU with the resources necessary to cure the deficiencies noted, and

C impose any other discipline authorized by Minnesota Statutes, section 326.229, subdivision 4

Statutory Authority: *MS s 326 18*

History: *19 SR 74*

1100.9900 PRIVATE DATA.

The board shall treat the quality review reports of the reviewer and the report acceptance body, and all material of the LPU, as private data as defined by Minnesota Statutes, section 13 02, subdivision 12, or nonpublic data as defined by Minnesota Statutes, section 13 02, subdivision 9, as applicable

If an LPU becomes the subject of a disciplinary proceeding pursuant to Minnesota Statutes, section 326.229, the board may make the information public in accordance with Minnesota Statutes, chapter 14

Statutory Authority: *MS s 326 18*

History: *19 SR 74*