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## A BILL FOR AN ACT

RELATING TO PUBLIC ACCOUNTANCY.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1 SECTION 1. Section 466-3, Hawaii Revised Statutes, is  
2 amended by amending the definition of "peer review" to read as  
3 follows:

4 "Peer review" means a study, appraisal, or review of one  
5 or more aspects of the professional work of a firm that issues  
6 attest reports by a person or persons who hold permits to  
7 practice public accountancy under section 466-7 or are licensed  
8 to practice public accountancy in any other state and who are  
9 not affiliated with the firm being reviewed."

10 SECTION 2. Section 466-35, Hawaii Revised Statutes, is  
11 amended by amending subsection (b) to read as follows:

12 "(b) A firm shall include, with the peer review compliance  
13 reporting form, the contemporaneous Hawaii supplement to the  
14 peer review report pursuant to section 466-36, if:

15 (1) A peer review report from an approved sponsoring  
16 organization does not include the selection of a  
17 Hawaii office or Hawaii attest engagement;



- 1           (2) The peer reviewer does not hold permits to practice  
2           public accountancy under section 466-7 [~~and is~~  
3           ~~required to have permits to practice under section~~  
4           466-7,] or is not licensed to practice public  
5           accountancy in any other state, except inspectors for  
6           the public company accounting oversight board; or  
7           (3) The final report resulting from any inspection by the  
8           public company accounting oversight board firm  
9           inspection program does not include the firm's Hawaii  
10          offices, if any, and Hawaii attest engagements in the  
11          scope of the inspection, and the firm is not required  
12          to enroll in another peer review program under section  
13          466-34."

14           SECTION 3. Section 466-38, Hawaii Revised Statutes, is  
15          amended by amending subsection (b) to read as follows:

16           "(b) For peer reviews scheduled after December 31, 2014,  
17          any report or document required to be submitted under subsection

18          (a) shall be filed with the board as follows:

- 19           (1) Firms enrolled in the American Institute of Certified  
20           Public Accountants and Hawaii Society of Certified  
21           Public Accountants peer review programs and



1 administered by the Hawaii Society of Certified Public  
2 Accountants, within [~~ten~~] thirty calendar days of  
3 receipt of the notice of completion from the Hawaii  
4 Society of Certified Public Accountants, shall  
5 complete the peer review compliance reporting form  
6 under section 466-35 and submit the form to the board  
7 along with the required documents;

8 (2) Firms otherwise enrolled in the American Institute of  
9 Certified Public Accountants peer review program,  
10 including those whose peer reviews are administered by  
11 the National Peer Review Committee, within [~~ten~~]  
12 thirty calendar days of receipt of the notice of  
13 completion from the sponsoring organization, shall  
14 complete the peer review compliance reporting form  
15 under section 466-35 and submit the form to the board  
16 along with the required documents;

17 (3) Firms enrolled in the public company accounting  
18 oversight board inspection program shall, within [~~ten~~]  
19 thirty calendar days of receipt of the issuance of the  
20 Part I report from the public company accounting  
21 oversight board, complete the peer review compliance



1 reporting form required by section 466-35 and submit  
2 the form to the board along with the required  
3 documents; and

4 (4) Firms enrolled in any other peer review program  
5 approved by this part shall submit the report  
6 generated by that review process and all associated  
7 documentation to the board in a form acceptable to the  
8 board."

9 SECTION 4. Section 466-39, Hawaii Revised Statutes, is  
10 amended by amending subsection (a) to read as follows:

11 "(a) A firm shall have [~~ten~~] thirty calendar days after  
12 the filing of the peer review compliance reporting form to  
13 appeal a "pass with deficiency" or a "fail" rating that may  
14 result in the denial, termination, or nonrenewal of a permit to  
15 practice."

16 SECTION 5. Statutory material to be repealed is bracketed  
17 and stricken. New statutory material is underscored.



1 SECTION 6. This Act shall take effect upon its approval.

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INTRODUCED BY:  \_\_\_\_\_

JAN 20 2016



# H.B. NO. 1669

**Report Title:**

Public Accountancy; Peer Review

**Description:**

Redefines "peer review" to include reviews done by out-of-state public accountancy licensees. Increases deadlines for filing of peer review compliance reporting forms and appealing certain ratings from 10 days to 30 calendar days.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*



**PRESENTATION OF THE  
BOARD OF PUBLIC ACCOUNTANCY**

TO THE HOUSE COMMITTEE ON  
ECONOMIC DEVELOPMENT & BUSINESS

TWENTY-EIGHTH LEGISLATURE  
Regular Session of 2016

Tuesday, February 2, 2016  
9:00 a.m.

**TESTIMONY ON HOUSE BILL NO. 1669, RELATING TO PUBLIC  
ACCOUNTANCY.**

TO THE HONORABLE DEREK S.K. KAWAKAMI, CHAIR,  
AND MEMBERS OF THE COMMITTEE:

My name is Nelson Lau, and I am the Chairperson of the Board of Public Accountancy ("Board"). Thank you for the opportunity to testify on behalf of the Board in strong support of House Bill No. 1669, Relating to Public Accountancy.

Peer review in chapter 466, Hawaii Revised Statutes ("HRS") is currently defined as "a study, appraisal, or review of one or more aspects of the professional work of a firm that issues attest reports by a person or persons who hold permits to practice public accountancy under section 466-7 and who are not affiliated with the firm being reviewed". This means that a peer review done by a CPA firm that does not hold a Hawaii firm permit to practice would not be acceptable to the Board in fulfillment of the peer review requirement for the renewal of the reviewed CPA firm's Hawaii firm permit.

However, the Board has found that many Hawaii CPA firms have engaged out-of-State CPA firms as peer reviewers for many years, building a working relationship and professional rapport with these peer reviewers which results in a quality peer review reflecting the insight and deeper understanding of the firm's professional work that comes from having a long-term affiliation. The Board believes that to now coerce these Hawaii CPA firms to abandon these out-of-State peer reviewers would adversely affect our CPA firms. The alternative, which is to force these out-of-State peer reviewers to obtain licensure in the State of Hawaii, would likely still result in the termination of these long-standing relationships, as such Hawaii licensure may not be in the business plans of these out-of-State CPA peer reviewers. Many times, the peer review may be the only nexus the out-of-State CPA peer reviewer has with Hawaii, with no other CPA engagements that would necessitate Hawaii licensure.

By refining "peer review" to include peer reviews performed by out-of-State CPAs and CPA firms, Hawaii CPA firms that are required to have peer reviews as a condition of the renewal of their firm permits on December 31, 2017 will be able to continue to have their peer reviews done by their existing out-of-State peer reviewers. In addition, the Board is concerned that there may be an inadequate number of Hawaii peer reviewers to perform the peer reviews that are required; therefore, the amendment to



the definition of "peer review" would allow the Hawaii CPA firm the option of engaging the services of a peer reviewer licensed to practice public accounting in another state.

House Bill No. 1669 also proposes to increase deadlines for the filing of peer review compliance reporting forms and appealing certain peer review ratings from ten (10) to thirty (30) calendar days. Generally, thirty (30) calendar days is the customary and accepted time for official notification, as reflected in HRS chapter 436B, the Professional and Vocational Licensing Act. Here, in the "Licensing Model Act", thirty (30) calendar days is the standard time for a licensee to notify the licensing authority of any judgment, award, disciplinary sanction, order, or other determination adjudging the licensee in this State or any other jurisdiction. Thirty (30) calendar days is also the standard time of notice to the licensing authority of any changes to a licensee's mailing, business, or residence address.

The Board believes that the existing ten (10) day notice deadline for submitting a CPA firm's peer review compliance report may be extremely difficult for Hawaii CPA firms to meet. In addition, it was unclear whether the submission deadline was ten (10) calendar or business days. The amendment proposed in House Bill No. 1669 would clarify that the notice deadline is thirty (30) calendar days from receipt of documentation verifying

the completion of a peer review, and would enable Hawaii CPA firms to timely comply.

Lastly, the Board believes that increasing the existing deadline to file an appeal to the Board relating to a "pass with deficiency" or a "fail" rating on its peer review from ten (10) to thirty (30) calendar days, would provide adequate time for the CPA firm to appeal to the Board on a matter that may result in a severe sanction such as the denial, termination, or nonrenewal of its firm permit to practice.

Therefore, the Board strongly supports House Bill No. 1669. Thank you for this opportunity to testify. I will be available to answer any questions you may have.