



**GOV. MSG. NO. 1247**

EXECUTIVE CHAMBERS  
HONOLULU

DAVID Y. IGE  
GOVERNOR

June 29, 2016

The Honorable Ronald D. Kouchi,  
President  
and Members of the Senate  
Twenty-Eighth State Legislature  
State Capitol, Room 409  
Honolulu, Hawai'i 96813

The Honorable Joseph M. Souki,  
Speaker and Members of the  
House of Representatives  
Twenty-Eighth State Legislature  
State Capitol, Room 431  
Honolulu, Hawai'i 96813

Dear President Kouchi, Speaker Souki, and Members of the Legislature:

This is to inform you that on June 29, 2016, the following bill was signed into law:

HB1669 HD2 SD1

RELATING TO PUBLIC ACCOUNTANCY  
**ACT 145 (16)**

Sincerely,

A handwritten signature in black ink that reads "David Y. Ige".

DAVID Y. IGE  
Governor, State of Hawai'i

Approved by the Governor  
JUN 29 2016  
on \_\_\_\_\_  
HOUSE OF REPRESENTATIVES  
TWENTY-EIGHTH LEGISLATURE, 2016  
STATE OF HAWAII

ORIGINAL

ACT 145  
H.B. NO. 1669  
H.D. 2  
S.D. 1

---

---

# A BILL FOR AN ACT

RELATING TO PUBLIC ACCOUNTANCY.

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

1 PART I

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

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

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

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

16 (1) A peer review report from an approved sponsoring  
17 organization does not include the selection of a  
18 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 466-36, Hawaii Revised Statutes, is  
15          amended by amending subsection (a) to read as follows:

16          "(a) A firm required to undergo a peer review under this  
17          chapter shall engage the services of a practitioner or firm  
18          holding a permit issued under section 466-7 to perform the  
19          following procedures to supplement the peer review report:

20               (1) Obtain from the reviewed firm a list of Hawaii attest  
21               engagements included in the scope of the peer review,



1 in accordance with the American Institute of Certified  
2 Public Accountants Standards for Performing and  
3 Reporting on Peer Reviews;

4 (2) Select one or more engagements from the list of  
5 engagements obtained from the reviewed firm;

6 (3) Obtain from the reviewed firm, the reports, financial  
7 statements, work papers, and work product resulting  
8 from the attest engagements selected;

9 (4) Read and compare the reports, work papers, and work  
10 product to an appropriate disclosure checklist to  
11 evaluate the firm's compliance with professional  
12 standards; and

13 (5) Document all instances of noncompliance with  
14 professional standards detected while performing the  
15 procedures listed in this section."

16 SECTION 4. Section 466-38, Hawaii Revised Statutes, is  
17 amended by amending subsection (b) to read as follows:

18 "(b) For peer reviews scheduled after December 31, 2014,  
19 any report or document required to be submitted under subsection  
20 (a) shall be filed with the board as follows:



- 1 (1) Firms enrolled in the American Institute of Certified  
2 Public Accountants and Hawaii Society of Certified  
3 Public Accountants peer review programs and  
4 administered by the Hawaii Society of Certified Public  
5 Accountants, within [~~ten~~] thirty calendar days of  
6 receipt of the notice of completion from the Hawaii  
7 Society of Certified Public Accountants, shall  
8 complete the peer review compliance reporting form  
9 under section 466-35 and submit the form to the board  
10 along with the required documents;
- 11 (2) Firms otherwise enrolled in the American Institute of  
12 Certified Public Accountants peer review program,  
13 including those whose peer reviews are administered by  
14 the National Peer Review Committee, within [~~ten~~]  
15 thirty calendar days of receipt of the notice of  
16 completion from the sponsoring organization, shall  
17 complete the peer review compliance reporting form  
18 under section 466-35 and submit the form to the board  
19 along with the required documents;
- 20 (3) Firms enrolled in the public company accounting  
21 oversight board inspection program shall, within [~~ten~~]



1           thirty calendar days of receipt of the issuance of the  
2           Part I report from the public company accounting  
3           oversight board, complete the peer review compliance  
4           reporting form required by section 466-35 and submit  
5           the form to the board along with the required  
6           documents; and

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

12          SECTION 5. Section 466-39, Hawaii Revised Statutes, is  
13          amended by amending subsection (a) to read as follows:

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

19    PART II

20          SECTION 6. Section 466-42, Hawaii Revised Statutes, is  
21          amended to read as follows:



1 " [†] §466-42 [†] Peer review oversight committee. (a) The  
2 board shall establish a peer review oversight committee for the  
3 purpose of:

- 4 (1) Monitoring sponsoring organizations to ensure that  
5 peer reviews are being conducted and reported in  
6 accordance with standards for performing and reporting  
7 on peer reviews adopted by the American Institute of  
8 Certified Public Accountants Peer Review Board;
- 9 (2) Reviewing the policies and procedures of sponsoring  
10 organization applicants as to their conformity with  
11 the peer review standards of any applicable peer  
12 review organization and this part; and
- 13 (3) Reporting to the board on the conclusions and  
14 recommendations reached as a result of performing the  
15 functions in paragraphs (1) and (2).
- 16 (b) Except to the extent otherwise required under this  
17 section and section 466-41(b), information concerning a specific  
18 firm or reviewer obtained by the peer review oversight committee  
19 during oversight activities shall be confidential and shall not  
20 be subject to discovery, pursuant to section 466-32, and reports  
21 submitted to the board by the peer review oversight committee



1 shall not contain information concerning specific firms or  
2 reviewers. Members of the peer review oversight committee shall  
3 be required to execute confidentiality statements for the  
4 sponsoring organization that they oversee.

5 (c) Effective January 1, 2013, the peer review oversight  
6 committee shall consist of three individuals who hold permits to  
7 practice under section 466-7. No member of the peer review  
8 oversight committee shall be a current member of the board, the  
9 Hawaii Society of Certified Public Accountants Peer Review or  
10 Professional Ethics Committees, or the American Institute of  
11 Certified Public Accountants Professional Ethics Executive  
12 Committee. The members shall have significant experience with  
13 attest engagements and currently be in the practice of public  
14 accountancy at the partner or equivalent level. The member's  
15 firm shall have received a report with a rating of pass or an  
16 unmodified opinion from its last peer review.

17 (d) The peer review oversight committee shall make an  
18 annual recommendation to the board as to the qualifications of  
19 an approved sponsoring organization to continue as an approved  
20 sponsoring organization on the basis of the results of the  
21 following procedures:





- 1           (1) Where the sponsoring organization is:
- 2               (A) The American Institute of Certified Public
- 3                     Accountants;
- 4               (B) A state certified public accountant society,
- 5                     including the Hawaii Society of Certified Public
- 6                     Accountants, fully involved in administering the
- 7                     American Institute of Certified Public
- 8                     Accountants peer review program; or
- 9               (C) The public company accounting oversight board,
- 10                    the peer review oversight committee shall review the
- 11                    published reports of the entity or the entity's
- 12                    successor to determine whether there is an acceptable
- 13                    level of oversight; and
- 14           (2) Where the sponsoring organization is other than any
- 15               organization listed in paragraph (1), the peer review
- 16               oversight committee shall perform the following
- 17               functions:
- 18               (A) At least one member of the peer review oversight
- 19                     committee shall attend at least one meeting of
- 20                     the sponsoring organization's peer review
- 21                     committee; and



- 1 (B) During these visits, the peer review oversight
- 2 committee members shall:
- 3 (i) Meet with the organization's peer review
- 4 committee during the committee's
- 5 consideration of peer review documents;
- 6 (ii) Evaluate the organization's procedures for
- 7 administering the peer review program;
- 8 (iii) Examine, on the basis of a random selection,
- 9 a number of reviews performed by the
- 10 organization to include, at a minimum, a
- 11 review of the report on the peer review, the
- 12 firm's response to the matters discussed,
- 13 the sponsoring organization's letter of
- 14 acceptance outlining any additional
- 15 corrective or monitoring procedures, and the
- 16 required technical documentation maintained
- 17 by the sponsoring organization on the
- 18 selected reviews; and
- 19 (iv) Expand the examination of peer review
- 20 documents if significant deficiencies,



1                   problems, or inconsistencies are encountered  
2                   during the analysis of the materials.

3           (e) In the evaluation of policies and procedures of  
4 sponsoring organization applicants, the peer review oversight  
5 committee shall:

6           (1) Examine the policies as drafted by the applicant to  
7 determine whether the policies provide reasonable  
8 assurance of conforming to the standards for peer  
9 reviews;

10          (2) Evaluate the procedures proposed by the applicant to  
11 determine whether:

12           (A) Assigned reviewers are appropriately qualified to  
13 perform the review for the specific firm;

14           (B) Reviewers are provided with appropriate  
15 materials;

16           (C) The applicant has provided for consultation with  
17 the reviewers on problems arising during the  
18 review and that specified occurrences requiring  
19 consultation are outlined;

20           (D) The applicant has provided for the assessment of  
21 the results of the review; and



- 1           (E) The applicant has provided for an independent  
2           report acceptance body that considers and accepts  
3           the reports of the review and requires corrective  
4           actions by firms with significant deficiencies;  
5           and
- 6           (3) Make recommendations to the board as to approval of  
7           the applicant as a sponsoring organization.
- 8           (f) Annually, the peer review oversight committee shall  
9           provide the board with a report on the continued reliability of  
10          sponsoring organizations' peer reviews. The peer review  
11          oversight committee report shall provide reasonable assurance  
12          that peer reviews are being conducted and reported on  
13          consistently and in accordance with the Standards for Performing  
14          and Reporting on Peer Review adopted by the American Institute  
15          of Certified Public Accountants. A summary of oversight visits  
16          shall be included with the annual report.
- 17          (g) The members of the peer review oversight committee  
18          shall serve without compensation, but shall be reimbursed for  
19          necessary expenses, including travel expenses, that are incurred  
20          in the performance of their duties.





1 SECTION 8. This Act does not affect rights and duties that  
2 matured, penalties that were incurred, and proceedings that were  
3 begun before its effective date.

4 SECTION 9. Statutory material to be repealed is bracketed  
5 and stricken. New statutory material is underscored.

6 SECTION 10. This Act shall take effect on July 1, 2016.  
7

APPROVED this 29 day of JUN, 2016



GOVERNOR OF THE STATE OF HAWAII

