THE SENATE TWENTY-FIFTH LEGISLATURE, 2010 STATE OF HAWAII

VETO S.B. NO. ²⁵⁰¹ S.D. 1 H.D. 1

A BILL FOR AN ACT

RELATING TO PUBLIC ACCOUNTANCY.

ACT No.	66	
Approve	ed:1=4=/	CSA
	April ²⁹ ,	

VETO OVERRIDE

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

1	SECT	ION 1. The purpose of this Act is to:
2	(1)	Provide a mechanism for firms engaged in the practice
3		of public accounting to undergo peer review on a
4		regular basis; and
5	(2)	Grant the state board of public accountancy
6		appropriate power to regulate the peer review process.
7	SECT	ION 2. Section 466-3, Hawaii Revised Statutes, is
8	amended a	s follows:
9	1.	By adding two new definitions to be appropriately
10	inserted	and to read:
11	" <u>"At</u>	test" means providing the following financial statement
12	services:	
13	(1)	Any audit or other engagement to be performed in
14		accordance with the statements on auditing standards
15		of the American Institute of Certified Public
16		Accountants;
17	(2)	Any compilation or review of a financial statement to
18		be performed in accordance with the statements on



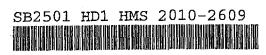
1 standards for accounting and review services of	the	
2 American Institute of Certified Public Accounta	nts;	
3 (3) Any examination of prospective financial inform	ation	
4 to be performed in accordance with the statemen	ts on	
5 standards for attestation engagements of the Am	erican	
6 Institute of Certified Public Accountants;		
7 (4) Any engagement to be performed in accordance wi	th the	
8 government auditing standards, also known as th	e	
9 Yellow Book, issued by the United States Govern	nent	
10 Accountability Office; and		
11 (5) Any engagement to be performed in accordance wi	th the	
12 standards of the Public Company Accounting Over	sight	
13 Board.		
14 "Peer review" means a study, appraisal, or review of	one or	
15 more aspects of the professional work of a firm that issu	es	
16 attest reports by a person or persons who hold permits to		
7 practice public accountancy under section 466-7 and who are not		
18 affiliated with the firm being reviewed."		
9 2. By amending the definition of "firm" to read:		
""Firm" means a sole proprietorship, a corporation, [or] a		
partnership[-], a limited liability company, or a limited		
liability partnership."		
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1	3.	By deleting the definition of "quality review."
2	["-"-	uality review"-means a study,appraisal, or review of
3	one or me	re-aspects of the professional work of a firm in the
4	practice	of public accountancy by a person or persons who hold
5	certificates and who are not affiliated with the firm being	
6	reviewed."]	
7	SECT	ION 3. Section 466-7, Hawaii Revised Statutes, is
8	amended b	y amending subsection (b) to read as follows:
9	" (b)	An applicant for the initial issuance or renewal of a
10	permit sh	all have:
11	(1)	A valid license;
12	(2)	Completed continuing professional education hours, the
13	. *	content of which shall be specified by the board which
14		may provide for special consideration by the board to
15		applicants for permit renewal when, in the judgment of
16		the board, full compliance with all requirements of
17		continuing education cannot reasonably be met;
18	(3)	Completed an application; [and]
19	(4)	Paid appropriate fees and assessments [-]; and
20	(5)	Undergone any applicable peer review process approved
21		by the board of accountancy pursuant to section 466-
22		<u>13.</u> "



1	SECT	ION 4. Section 466-9, Hawaii Revised Statutes, is
2	amended a	s follows:
3	1.	By amending subsection (a) to read:
4	" (a)	In addition to any other actions authorized by law,
5	in accord	ance with chapter 91, the board may take the following
6	action:	
7	(1)	Cancel or revoke any license or permit issued under
8		section 466-5, 466-6, or 466-7, or corresponding
9		provisions of prior law;
10	(2)	Suspend a license or permit for a period of not more
11		than two years;
12	(3)	Refuse to renew a license or permit for a period of
13		not more than two years;
14	(4)	Reprimand, censure or limit the scope of practice of
15		any licensee or firm;
16	(5)	Impose an administrative fine not exceeding \$1,000;
17	(6)	Place a licensee or firm on probation;
18	(7)	Require a firm to have a [quality] peer review
19		conducted in the manner specified by the board; or
20	(8)	Require a licensee to attain satisfactory completion
21		of additional continuing professional education hours
22		as specified by the board."



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1 2. By amending subsection (c) to read: "(c) Upon application of any person against whom 2 3 disciplinary action has been taken under subsection (a), the 4 board, in accordance with chapter 91, may reinstate the person's 5 license or permit to practice which was affected by the 6 disciplinary action. 7 (1) The board shall specify the manner in which an 8 application shall be made, the time within which it 9 shall be made, and the circumstances under which the license may be reinstated; and 10 11 (2)Before reinstating, the board may: 12 (A) Require the applicant to show successful completion of specified continuing professional 13 education; and 14 Make the reinstatement of a license or permit 15 (B) 16 conditional and subject to satisfactory 17 completion of a [quality] peer review conducted 18 in a manner as the board may specify." 19 SECTION 5. Section 466-13, Hawaii Revised Statutes, is 20 amended to read as follows: 21 "§466-13 [Quality] Peer review [committee]. (a) Every 22 firm, including the Hawaii offices and Hawaii engagements of SB2501 HD1 HMS 2010-2609

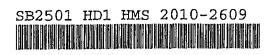
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1 foreign or multistate firms, required to obtain a firm permit to 2 practice pursuant to section 466-7 shall undergo a peer review every three years on the firm's Hawaii attest work and submit 3 4 evidence of such peer review at the time of the renewal of the 5 firm's permit to practice under section 466-7. 6 (b) The board [may-appoint a quality review committee] 7 shall establish a peer review process to review [the publicly available professional] attest work of firms [on a random basis, 8 9 without any requirement of a formal complaint or suspicion of 10 impropriety on the part of any particular firm]. The identity of the person or firm for whom the professional work is done 11 shall be preserved in confidence. [In the event] If the review 12 13 discloses information that a firm has not met the appropriate professional standards, the board may require further 14 investigation of the firm. The peer review process required by 15 this section shall be for educational or remedial and not 16 17 punitive purposes. (c) The board may authorize a third party entity to 18 19 administer the peer review required under subsection (a); 20 provided that the entity shall not require firms or the firms' owners or employees to become members of the entity to 21 22 participate in peer review and shall charge the same rate for SB2501 HD1 HMS 2010-2609

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1	<u>peer revi</u>	ew services to both members and nonmembers. If the
2	board cho	oses to authorize a third party entity to administer
3	peer revi	ews, the third party shall be held to the highest
4	standards	of professionalism, quality, and ethics.
5	(d)	The board shall adopt rules pursuant to chapter 91 to
6	establish	requirements and procedures for the qualification of
7	entities	to conduct peer reviews and for the performance of peer
8	reviews b	y these entities. The rules shall include:
9	(1)	A process for the conduct of peer review to be
10		followed by the board and by an authorized third party
11		entity;
12	(2)	Definitions, standards, and requirements for an
13		acceptable peer review;
14	(3)	Standards for certification and qualification of peer
15		reviewers;
16	(4)	A process for a firm to appeal the findings or
17		conclusions of any peer review process that results in
18		the denial, termination, or nonrenewal of a firm
19		permit pursuant to section 466-9; provided that the
20		appeal process shall include the postponement of any
21		adverse action during the pendency of the appeal; and



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1 Provisions for the grant of an extension of time to a (5) firm for compliance with the peer review requirement 2 3 based on a showing of hardship including for reasons 4 of health, military service, or other good cause as determined by the board. 5 Neither the proceedings nor the records of the 6 (e) [quality] peer review [committees] process shall be subject to 7 8 discovery. Except as hereinafter provided, no person [in 9 attendance at a meeting of the committee] involved in the peer 10 review process shall be required to testify [as to what transpired at the meeting;] on that process; provided that [the] 11 12 statements made by any person [in attendance at the meeting] in 13 connection with the peer review process who is a party to an action or proceeding the subject matter of which was reviewed 14 [at-the meeting,] in that process, shall be subject to 15 16 discovery." SECTION 6. This Act does not affect rights and duties that 17 have matured, penalties that were incurred, and proceedings that 18 19 were begun, before its effective date. 20 SECTION 7. The board of public accountancy shall: 21 (1)Adopt rules pursuant to section 466-13(d), Hawaii Revised Statutes, in section 5 of this Act; and 22 SB2501 HD1 HMS 2010-2609

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(2) Report the adoption of the rules under paragraph (1)
to the legislature immediately upon adoption of those
rules by means of written notice to the speaker of the
house of representatives and the president of the
senate.

6 SECTION 8. Statutory material to be repealed is bracketed7 and stricken. New statutory material is underscored.

8 SECTION 9. This Act shall take effect upon its approval; 9 provided that sections 2, 3, 4, and 5 shall take effect one year 10 after the board of public accountancy reports the adoption of 11 rules pursuant to section 7 of this Act.

