

Honolulu, Hawaii

FEB 26 2010

RE: S.B. No. 2501  
S.D. 1

Honorable Colleen Hanabusa  
President of the Senate  
Twenty-Fifth State Legislature  
Regular Session of 2010  
State of Hawaii

Madam:

Your Committee on Commerce and Consumer Protection, to which  
was referred S.B. No. 2501 entitled:

"A BILL FOR AN ACT RELATING TO PUBLIC ACCOUNTANCY,"

begs leave to report as follows:

The purpose of this measure is to require public accountancy  
firms that engage in attest work to undergo regular peer review as  
a condition of maintaining a permit to practice public  
accountancy.

Your Committee received testimony in support of this measure  
from the Board of Public Accountancy, the Hawaii Society of  
Certified Public Accountants, and Hawaii individuals and  
businesses. Testimony in opposition to this measure was received  
from Hawaii Association of Public Accountants and Hawaii  
individuals and businesses. Testimony with comments was received  
from the Hawaii Bankers Association. Written testimony presented  
to the Committee may be reviewed on the Legislature's website.

Your Committee finds that the purpose of a mandatory peer  
review process is to raise the level of quality of public  
accountancy services and to assure the competency of public  
accountancy firms in the State. It is the intent of your  
Committee that the peer review process be helpful to accountancy  
firms, regulators, the public, and policymakers rather than be  
punitive to firms. Your Committee finds that mandatory peer  
review will provide protection for public users of accountancy  
services including banks and other lenders, institutional and



private investors, and other members of the public who rely on the integrity of the accounting profession.

Your Committee notes that in the past, inaction by the Board of Public Accountancy (Board) in neglecting to timely enact administrative rules necessary to enact a statutorily-created program have resulted in great hardship to public accountancy firms in the State. When compliance with a statutory mandate, such as the requirement for peer review contained in this measure, is not possible due to the absence of necessary implementing rules, Hawaii public accountancy firms are forced to be out of compliance with state law and, therefore, may be ineligible for governmental or out-of-state contracts. It is the intention of your Committee in making this measure effective upon its approval and conditioning the implementation of its peer review process on the enactment of rules to encourage the Board to avoid delays in the rule-making process so as to avoid loss of income and other consequences to Hawaii's accounting firms.

Your Committee respectfully urges the Board to prioritize the adoption of rules to implement this measure. Your Committee notes that the Board has not yet begun to formulate policies and procedures to implement a peer review process and encourages the Board to begin the rules process as soon as possible so as to enact protections for Hawaii's consumers of public accountancy services. Your Committee notes that the Board has expressed its support for this measure and expects that the Board will be eager to implement the peer review process contained in it.

Your Committee has amended this measure by:

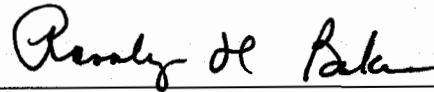
- (1) Adding definitions of "attest" and "peer review";
- (2) Clarifying that the peer review process shall apply to all firms practicing public accountancy in Hawaii, including foreign and multi-state firms;
- (3) Specifying that the Board may contract with a third party entity to perform peer reviews, subject to certain conditions;
- (4) Specifying that the Board shall enact rules to implement the peer review process, including rules for the conduct of reviews, standards for reviewers, appeals, and extensions of time for compliance;



- (5) Specifying that the peer review process required by this measure shall become operative one year after the Board reports the adoption of rules for its enactment to the Legislature; and
- (6) Making nonsubstantive technical changes for the purposes of clarity and accuracy.

As affirmed by the record of votes of the members of your Committee on Commerce and Consumer Protection that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2501, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 2501, S.D. 1, and be placed on the calendar for Third Reading.

Respectfully submitted on  
behalf of the members of the  
Committee on Commerce and  
Consumer Protection,



ROSALYN H. BAKER, Chair



The Senate  
Twenty-Fifth Legislature  
State of Hawaii

**Record of Votes**  
**Committee on Commerce and Consumer Protection**  
**CPN**

Bill / Resolution No.:* <div style="font-size: 1.2em; margin-top: 5px;">SB 2501</div>	Committee Referral: <div style="font-size: 1.2em; margin-top: 5px;">CPN</div>	Date: <div style="font-size: 1.2em; margin-top: 5px;">2/17/10</div>		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <div style="display: flex; justify-content: space-between; margin-top: 10px;"> <div><input type="checkbox"/> Pass, unamended 2312</div> <div><input checked="" type="checkbox"/> Pass, with amendments 2311</div> <div><input type="checkbox"/> Hold 2310</div> <div><input type="checkbox"/> Recommit 2313</div> </div>				
Members	Aye	Aye (WR)	Nay	Excused
BAKER, Rosalyn H. (C)	✓			
IGE, David Y. (VC)				✓
ESPERO, Will	✓			
GREEN, M.D., Josh	✓			
IHARA, Jr., Les				✓
SAKAMOTO, Norman				✓
HEMMINGS, Fred	✓			
<b>TOTAL</b>	4	0	0	3
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: <div style="text-align: center; margin-top: 10px;"> </div>				
<b>Distribution:</b> <div style="display: flex; justify-content: space-between; font-size: 0.8em; margin-top: 5px;"> <div>Original File with Committee Report</div> <div>Yellow Clerk's Office</div> <div>Pink Drafting Agency</div> <div>Goldenrod Committee File Copy</div> </div>				

\*Only one measure per Record of Votes