

## ACT 145

H.B. NO. 1669

A Bill for an Act Relating to Public Accountancy.

*Be It Enacted by the Legislature of the State of Hawaii:*

## PART I

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

““Peer review” means 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 or are licensed to practice public accountancy in any other state and who are not affiliated with the firm being reviewed.”

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

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

- (1) A peer review report from an approved sponsoring organization does not include the selection of a Hawaii office or Hawaii attest engagement;
- (2) The peer reviewer does not hold permits to practice public accountancy under section 466-7 ~~and is required to have permits to practice under section 466-7;~~ or is not licensed to practice public accountancy in any other state, except inspectors for the public company accounting oversight board; or
- (3) The final report resulting from any inspection by the public company accounting oversight board firm inspection program does not include the firm’s Hawaii offices, if any, and Hawaii attest engage-

ments in the scope of the inspection, and the firm is not required to enroll in another peer review program under section 466-34.”

SECTION 3. Section 466-36, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

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

- (1) Obtain from the reviewed firm a list of Hawaii attest engagements included in the scope of the peer review, in accordance with the American Institute of Certified Public Accountants Standards for Performing and Reporting on Peer Reviews;
- (2) Select one or more engagements from the list of engagements obtained from the reviewed firm;
- (3) Obtain from the reviewed firm, the reports, financial statements, work papers, and work product resulting from the attest engagements selected;
- (4) Read and compare the reports, work papers, and work product to an appropriate disclosure checklist to evaluate the firm’s compliance with professional standards; and
- (5) Document all instances of noncompliance with professional standards detected while performing the procedures listed in this section.”

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

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

- (1) Firms enrolled in the American Institute of Certified Public Accountants and Hawaii Society of Certified Public Accountants peer review programs and administered by the Hawaii Society of Certified Public Accountants, within ~~ten~~ thirty calendar days of receipt of the notice of completion from the Hawaii Society of Certified Public Accountants, shall complete the peer review compliance reporting form under section 466-35 and submit the form to the board along with the required documents;
- (2) Firms otherwise enrolled in the American Institute of Certified Public Accountants peer review program, including those whose peer reviews are administered by the National Peer Review Committee, within ~~ten~~ thirty calendar days of receipt of the notice of completion from the sponsoring organization, shall complete the peer review compliance reporting form under section 466-35 and submit the form to the board along with the required documents;
- (3) Firms enrolled in the public company accounting oversight board inspection program shall, within ~~ten~~ thirty calendar days of receipt of the issuance of the Part I report from the public company accounting oversight board, complete the peer review compliance reporting form required by section 466-35 and submit the form to the board along with the required documents; and
- (4) Firms enrolled in any other peer review program approved by this part shall submit the report generated by that review process and all

associated documentation to the board in a form acceptable to the board.”

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

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

## PART II

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

“~~[[§466-42]]~~ **Peer review oversight committee.** (a) The board shall establish a peer review oversight committee for the purpose of:

- (1) Monitoring sponsoring organizations to ensure that peer reviews are being conducted and reported in accordance with standards for performing and reporting on peer reviews adopted by the American Institute of Certified Public Accountants Peer Review Board;
- (2) Reviewing the policies and procedures of sponsoring organization applicants as to their conformity with the peer review standards of any applicable peer review organization and this part; and
- (3) Reporting to the board on the conclusions and recommendations reached as a result of performing the functions in paragraphs (1) and (2).

(b) Except to the extent otherwise required under this section and section 466-41(b), information concerning a specific firm or reviewer obtained by the peer review oversight committee during oversight activities shall be confidential and shall not be subject to discovery, pursuant to section 466-32, and reports submitted to the board by the peer review oversight committee shall not contain information concerning specific firms or reviewers. Members of the peer review oversight committee shall be required to execute confidentiality statements for the sponsoring organization that they oversee.

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

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

- (1) Where the sponsoring organization is:
  - (A) The American Institute of Certified Public Accountants;
  - (B) A state certified public accountant society, including the Hawaii Society of Certified Public Accountants, fully involved in

- administering the American Institute of Certified Public Accountants peer review program; or
- (C) The public company accounting oversight board, the peer review oversight committee shall review the published reports of the entity or the entity's successor to determine whether there is an acceptable level of oversight; and
- (2) Where the sponsoring organization is other than any organization listed in paragraph (1), the peer review oversight committee shall perform the following functions:
  - (A) At least one member of the peer review oversight committee shall attend at least one meeting of the sponsoring organization's peer review committee; and
  - (B) During these visits, the peer review oversight committee members shall:
    - (i) Meet with the organization's peer review committee during the committee's consideration of peer review documents;
    - (ii) Evaluate the organization's procedures for administering the peer review program;
    - (iii) Examine, on the basis of a random selection, a number of reviews performed by the organization to include, at a minimum, a review of the report on the peer review, the firm's response to the matters discussed, the sponsoring organization's letter of acceptance outlining any additional corrective or monitoring procedures, and the required technical documentation maintained by the sponsoring organization on the selected reviews; and
    - (iv) Expand the examination of peer review documents if significant deficiencies, problems, or inconsistencies are encountered during the analysis of the materials.
- (e) In the evaluation of policies and procedures of sponsoring organization applicants, the peer review oversight committee shall:
  - (1) Examine the policies as drafted by the applicant to determine whether the policies provide reasonable assurance of conforming to the standards for peer reviews;
  - (2) Evaluate the procedures proposed by the applicant to determine whether:
    - (A) Assigned reviewers are appropriately qualified to perform the review for the specific firm;
    - (B) Reviewers are provided with appropriate materials;
    - (C) The applicant has provided for consultation with the reviewers on problems arising during the review and that specified occurrences requiring consultation are outlined;
    - (D) The applicant has provided for the assessment of the results of the review; and
    - (E) The applicant has provided for an independent report acceptance body that considers and accepts the reports of the review and requires corrective actions by firms with significant deficiencies; and
  - (3) Make recommendations to the board as to approval of the applicant as a sponsoring organization.
- (f) Annually, the peer review oversight committee shall provide the board with a report on the continued reliability of sponsoring organizations' peer reviews. The peer review oversight committee report shall provide reason-

able assurance that peer reviews are being conducted and reported on consistently and in accordance with the Standards for Performing and Reporting on Peer Review adopted by the American Institute of Certified Public Accountants. A summary of oversight visits shall be included with the annual report.

(g) The members of the peer review oversight committee shall serve without compensation, but shall be reimbursed for necessary expenses, including travel expenses, that are incurred in the performance of their duties.

(h) No member of the peer review oversight committee shall bear any civil liability for any action taken as a member of the peer review oversight committee in furtherance of the purposes for which the peer review oversight committee was established.”

### PART III

SECTION 7. Section 466-3, Hawaii Revised Statutes, is amended by adding a new definition to be appropriately inserted and to read:

““Hawaii attest work” means attest services provided or attest reports issued by an individual or firm licensed and authorized to practice public accountancy in this State or any other state, to any of the following clients:

- (1) An individual who is a resident of this State;
- (2) A person, entity, firm, or trust that is domiciled within this State, or whose principal or home office is physically located within this State; or
- (3) A subsidiary that has a physical presence in this State, and has a separate, stand-alone financial statement or report issued on that subsidiary.”

### PART IV

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

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

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

(Approved June 29, 2016.)