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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. 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 SECTION 2. Section 466-3, Hawaii Revised Statutes, is  
8 amended as follows:

9 1. By adding two new definitions to be appropriately  
10 inserted and to read:

11 "Attest" 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;



- 1        (2) Any compilation or review of a financial statement to  
2        be performed in accordance with the statements on  
3        standards for accounting and review services of the  
4        American Institute of Certified Public Accountants;  
5        (3) Any examination of prospective financial information  
6        to be performed in accordance with the statements on  
7        standards for attestation engagements of the American  
8        Institute of Certified Public Accountants;  
9        (4) Any engagement to be performed in accordance with the  
10       government auditing standards, also known as the  
11       Yellow Book, issued by the United States General  
12       Accounting Office; and  
13       (5) Any engagement to be performed in accordance with the  
14       standards of the Public Company Accounting Oversight  
15       Board.

16       "Peer review" means a study, appraisal, or review of one or  
17       more aspects of the professional work of a firm that issues  
18       attest reports by a person or persons who hold permits to  
19       practice public accountancy under section 466-7 and who are not  
20       affiliated with the firm being reviewed."

21       2. By amending the definition of "firm" to read:



1        "Firm" means a sole proprietorship, a corporation, [~~or~~] a  
2        partnership[~~-~~], a limited liability corporation, or a limited  
3        liability partnership."

4        3. By deleting the definition of "quality review".

5        [~~"Quality review" means a study, appraisal, or review of~~  
6        ~~one or more aspects of the professional work of a firm in the~~  
7        ~~practice of public accountancy by a person or persons who hold~~  
8        ~~certificates and who are not affiliated with the firm being~~  
9        ~~reviewed."~~]

10       SECTION 3. Section 466-13, Hawaii Revised Statutes, is  
11       amended to read as follows:

12        "**\$466-13** **[Quality] Peer review [committee].**

13        (a) Every firm, including the Hawaii offices and Hawaii  
14        engagements of foreign or multistate firms, required to obtain a  
15        firm permit to practice pursuant to section 466-7 shall undergo  
16        peer review on the firm's attest work at the time of the renewal  
17        of the firm's permit to practice under section 466-7.

18        (b) The board [may appoint a quality review committee]  
19        shall establish a peer review process to review [the publicly  
20        available professional] attest work of firms [on a random basis,  
21        without any requirement of a formal complaint or suspicion of  
22        impropriety on the part of any particular firm.] at the time of



1 the renewal of a firm's permit to practice under section 466-7.  
2 The identity of the person for whom the professional work is  
3 done shall be preserved in confidence. [~~In the event~~] If the  
4 review discloses information that a firm has not met the  
5 appropriate professional standards, the board may require  
6 further investigation of the firm. The peer review process  
7 required by this section shall be for educational or remedial  
8 and not punitive purposes.

9 (c) The board may contract with a third party entity to  
10 provide the peer review required under subsection (a); provided  
11 that the contracted entity shall not require firms to become  
12 members of the entity in order to participate in peer review and  
13 shall charge the same rate for peer review services to both  
14 members and nonmembers. If the board chooses to contract with a  
15 third party to provide peer reviews, the third party shall be  
16 held to the highest standards of professionalism, quality, and  
17 ethics.

18 (d) The board shall adopt rules pursuant to chapter 91 to  
19 establish requirements and procedures for the qualification of  
20 organizations to conduct peer reviews and for the performance of  
21 peer reviews by these organizations. The rules shall include:



- 1        (1) A process for the conduct of peer review to be  
2        followed by the board and by a third party contracted  
3        entity;
- 4        (2) Definitions, standards, and requirements for an  
5        acceptable peer review;
- 6        (3) Standards for certification and qualification of peer  
7        reviewers;
- 8        (4) A process for a firm to appeal the findings or  
9        conclusions of any peer review process that results in  
10       the denial, termination, or nonrenewal of a firm  
11       permit pursuant to section 466-9; provided that the  
12       appeal process shall include the postponement of any  
13       adverse action during the pendency of the appeal; and
- 14       (5) Provisions for the grant of an extension of time to a  
15       firm for compliance with the peer review requirement  
16       based on a showing of hardship including for reasons  
17       of health, military service, or other good cause as  
18       determined by the board.
- 19       (e) Neither the proceedings nor the records of the  
20       [quality] peer review [committees] process shall be subject to  
21       discovery. Except as hereinafter provided, no person in  
22       attendance at a meeting of the committee shall be required to



1 testify as to what transpired at the meeting; provided that the  
2 statements made by any person in attendance at the meeting who  
3 is a party to an action or proceeding the subject matter of  
4 which was reviewed at the meeting, shall be subject to  
5 discovery."

6 SECTION 4. This Act does not affect rights and duties that  
7 were matured, penalties that were incurred, and proceedings that  
8 were begun, before its effective date.

9 SECTION 5. The board of public accountancy shall report  
10 the adoption of rules required by section 466-13(c), Hawaii  
11 Revised Statutes, to the legislature immediately upon the  
12 adoption of those rules by means of written notice to the  
13 speaker of the house of representatives and the president of the  
14 senate.

15 SECTION 6. Statutory material to be repealed is bracketed  
16 and stricken. New statutory material is underscored.

17 SECTION 7. This Act shall take effect upon its approval;  
18 provided that the peer review process created by section 3 of  
19 this Act shall become mandatory for permit renewal one year  
20 after the board of public accountancy reports the adoption of  
21 rules pursuant to section 466-13(d), Hawaii Revised Statutes.

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**Report Title:**

Peer Review for Public Accountancy

**Description:**

Requires peer reviews at the time of renewal of certified public accountancy permits to practice. (SD1)

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

