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**PRESENTATION OF THE  
BOARD OF PUBLIC ACCOUNTANCY**

**TO THE HOUSE COMMITTEE ON  
CONSUMER PROTECTION AND COMMERCE  
TWENTY-EIGHTH LEGISLATURE  
Regular Session of 2016**

**Wednesday, February 10, 2016  
2:10 p.m.**

**LATE TESTIMONY**

**TESTIMONY ON HOUSE BILL NO. 1669, RELATING TO PUBLIC ACCOUNTANCY.**

**TO THE HONORABLE ANGUS L.K. MCKELVEY, CHAIR,  
AND MEMBERS OF THE COMMITTEE:**

My name is Nelson Lau, and I am the Chairperson of the Board of Public Accountancy ("Board"). Thank you for the opportunity to testify on behalf of the Board in strong support of House Bill No. 1669, Relating to Public Accountancy.

Peer review in chapter 466, Hawaii Revised Statutes ("HRS"), is currently defined as "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 and who are not affiliated with the firm being reviewed". This means that a peer review done by a Certified Public Accountant ("CPA") firm that does not hold a Hawaii firm permit to practice would not be acceptable to the Board in fulfillment of the peer review requirement for the renewal of the reviewed CPA firm's Hawaii firm permit.

However, the Board has found that many Hawaii CPA firms have engaged out-of-State CPA firms as peer reviewers for many years, building a working relationship and professional rapport with these peer reviewers which results in a quality peer review reflecting the insight and deeper understanding of the firm's professional work that

comes from having a long-term affiliation. The Board believes that to now cause these Hawaii CPA firms to abandon these out-of-State peer reviewers would adversely affect our CPA firms. The alternative, which is to cause these out-of-State peer reviewers to obtain licensure in the State of Hawaii, would likely still result in the termination of these long-standing relationships, as such Hawaii licensure may not be in the business plans of these out-of-State CPA peer reviewers. Many times, the peer review may be the only nexus the out-of-State CPA peer reviewer has with Hawaii, with no other CPA engagements that would necessitate Hawaii licensure.

By redefining "peer review" to include peer reviews performed by out-of-State CPAs and CPA firms, Hawaii CPA firms that are required to have peer reviews as a condition of the renewal of their firm permits on December 31, 2017 will be able to continue to have their peer reviews done by their existing out-of-State peer reviewers. In addition, the Board is concerned that there may be an inadequate number of Hawaii peer reviewers to perform the peer reviews that are required; therefore, the amendment to the definition of "peer review" would allow the Hawaii CPA firm the option of engaging the services of a peer reviewer licensed to practice public accounting in another state.

House Bill No. 1669 also proposes to increase deadlines for the filing of peer review compliance reporting forms and appealing certain peer review ratings from ten (10) to thirty (30) calendar days. Generally, thirty (30) calendar days is the customary and accepted time for official notification, as reflected in HRS chapter 436B, the Professional and Vocational Licensing Act. Here, in the "Licensing Model Act", thirty (30) calendar days is the standard time for a licensee to notify the licensing authority of

any judgment, award, disciplinary sanction, order, or other determination adjudging the licensee in this State or any other jurisdiction. Thirty (30) calendar days is also the standard time of notice to the licensing authority of any changes to a licensee's mailing, business, or residence address.

The Board believes that the existing ten (10) day notice deadline for submitting a CPA firm's peer review compliance report may be extremely difficult for Hawaii CPA firms to meet. In addition, it was unclear whether the submission deadline was ten (10) calendar or business days. The amendment proposed in House Bill No. 1669 would clarify that the notice deadline is thirty (30) calendar days from receipt of documentation verifying the completion of a peer review, and would enable Hawaii CPA firms to timely comply.

In addition, the Board believes that increasing the existing deadline to file an appeal to the Board relating to a "pass with deficiency" or a "fail" rating on its peer review from ten (10) to thirty (30) calendar days, would provide adequate time for the CPA firm to appeal to the Board on a matter that may result in a severe sanction such as the denial, termination, or nonrenewal of its firm permit to practice.

Lastly, the Board proposes the following amendment to House Bill No. 1669 to clarify one of the requirements relating to the Hawaii supplement to the peer review report pursuant to section 466-36(a)(2), HRS. This clarification is to respond to a number of inquiries received by the Board from CPA firms that are required to undergo an additional review of the CPA firm's Hawaii attest engagements as a supplement to its overall peer review. When the CPA firm's overall peer review does not include within its

scope the required Hawaii attest engagement, the firm is required to engage the services of a peer reviewer to perform the Hawaii supplement. The Board proposes to add the words "one or more" to make clear that the peer reviewer is required to select one or more engagements from the list of engagements obtained from the reviewed firm. This amendment is attached to my testimony for this Committee's consideration.

In closing, the Board strongly supports House Bill No. 1669, as amended with the Board's suggested changes. Thank you for this opportunity to testify. I will be available to answer any questions you may have.

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

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

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

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

15 (1) A peer review report from an approved sponsoring  
16 organization does not include the selection of a  
17 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 466-38, Hawaii Revised Statutes, is  
 15 amended by amending subsection (b) to read as follows:

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

19 (1) Firms enrolled in the American Institute of Certified  
 20 Public Accountants and Hawaii Society of Certified  
 21 Public Accountants peer review programs and  
 22 administered by the Hawaii Society of Certified Public



1 Accountants, within [~~ten~~] thirty calendar days of  
2 receipt of the notice of completion from the Hawaii  
3 Society of Certified Public Accountants, shall  
4 complete the peer review compliance reporting form  
5 under section 466-35 and submit the form to the board  
6 along with the required documents;

7 (2) Firms otherwise enrolled in the American Institute of  
8 Certified Public Accountants peer review program,  
9 including those whose peer reviews are administered by  
10 the National Peer Review Committee, within [~~ten~~]  
11 thirty calendar days of receipt of the notice of  
12 completion from the sponsoring organization, shall  
13 complete the peer review compliance reporting form  
14 under section 466-35 and submit the form to the board  
15 along with the required documents;

16 (3) Firms enrolled in the public company accounting  
17 oversight board inspection program shall, within [~~ten~~]  
18 thirty calendar days of receipt of the issuance of the  
19 Part I report from the public company accounting  
20 oversight board, complete the peer review compliance  
21 reporting form required by section 466-35 and submit



1 the form to the board along with the required  
2 documents; and  
3 (4) Firms enrolled in any other peer review program  
4 approved by this part shall submit the report  
5 generated by that review process and all associated  
6 documentation to the board in a form acceptable to the  
7 board."

8 SECTION 4. Section 466-39, Hawaii Revised Statutes, is  
9 amended by amending subsection (a) to read as follows:

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

15 SECTION 5. Section 466-36, Hawaii Revised Statutes, is  
16 amended by amending subsection (a) (2) to read as follows:

17 "(1) Obtain from the reviewed firm a list of Hawaii attest  
18 engagements included in the scope of the peer review, in  
19 accordance with the American Institute of Certified Public  
20 Accountants Standards for Performing and Reporting on Peer  
21 Reviews;





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

3        SECTION [~~5~~]6. Statutory material to be repealed is  
4 bracketed and stricken. New statutory material is underscored.

5        SECTION [~~6~~]7. This Act shall take effect upon its  
6 approval.

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INTRODUCED BY: \_\_\_\_\_

HB1669 Proposed HD1 CCA-PVL(ACCT) 02-10-16 CPC.doc

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H.B. NO. 1669  
Proposed  
H.D. 1

**Report Title:**

Public Accountancy; Peer Review

**Description:**

Redefines "peer review" to include reviews done by out-of-state public accountancy licensees. Increases deadlines for filing of peer review compliance reporting forms and appealing certain ratings from 10 days to 30 calendar days.

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

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