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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 466-42, Hawaii Revised Statutes, is  
2 amended to read as follows:

3           " ~~[+]~~§466-42 ~~[+]~~ Peer review oversight committee. (a) The  
4 board shall establish a peer review oversight committee for the  
5 purpose of:

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



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

11           (c) Effective January 1, 2013, the peer review oversight  
12 committee shall consist of three individuals who hold permits to  
13 practice under section 466-7. No member of the peer review  
14 oversight committee shall be a current member of the board, the  
15 Hawaii Society of Certified Public Accountants Peer Review or  
16 Professional Ethics Committees, or the American Institute of  
17 Certified Public Accountants Professional Ethics Executive  
18 Committee. The members shall have significant experience with  
19 attest engagements and currently be in the practice of public  
20 accountancy at the partner or equivalent level. The member's



1 firm shall have received a report with a rating of pass or an  
2 unmodified opinion from its last peer review.

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

8 (1) Where the sponsoring organization is:

- 9 (A) The American Institute of Certified Public  
10 Accountants;
- 11 (B) A state certified public accountant society,  
12 including the Hawaii Society of Certified Public  
13 Accountants, fully involved in administering the  
14 American Institute of Certified Public  
15 Accountants peer review program; or
- 16 (C) The public company accounting oversight board,  
17 the peer review oversight committee shall review the  
18 published reports of the entity or the entity's  
19 successor to determine whether there is an acceptable  
20 level of oversight; and



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1           (2) Where the sponsoring organization is other than any  
2           organization listed in paragraph (1), the peer review  
3           oversight committee shall perform the following  
4           functions:

5           (A) At least one member of the peer review oversight  
6           committee shall attend at least one meeting of  
7           the sponsoring organization's peer review  
8           committee; and

9           (B) During these visits, the peer review oversight  
10          committee members shall:

11          (i) Meet with the organization's peer review  
12          committee during the committee's  
13          consideration of peer review documents;

14          (ii) Evaluate the organization's procedures for  
15          administering the peer review program;

16          (iii) Examine, on the basis of a random selection,  
17          a number of reviews performed by the  
18          organization to include, at a minimum, a  
19          review of the report on the peer review, the  
20          firm's response to the matters discussed,  
21          the sponsoring organization's letter of



1 acceptance outlining any additional  
2 corrective or monitoring procedures, and the  
3 required technical documentation maintained  
4 by the sponsoring organization on the  
5 selected reviews; and

6 (iv) Expand the examination of peer review  
7 documents if significant deficiencies,  
8 problems, or inconsistencies are encountered  
9 during the analysis of the materials.

10 (e) In the evaluation of policies and procedures of  
11 sponsoring organization applicants, the peer review oversight  
12 committee shall:

13 (1) Examine the policies as drafted by the applicant to  
14 determine whether the policies provide reasonable  
15 assurance of conforming to the standards for peer  
16 reviews;

17 (2) Evaluate the procedures proposed by the applicant to  
18 determine whether:

19 (A) Assigned reviewers are appropriately qualified to  
20 perform the review for the specific firm;



- 1 (B) Reviewers are provided with appropriate  
2 materials;
- 3 (C) The applicant has provided for consultation with  
4 the reviewers on problems arising during the  
5 review and that specified occurrences requiring  
6 consultation are outlined;
- 7 (D) The applicant has provided for the assessment of  
8 the results of the review; and
- 9 (E) The applicant has provided for an independent  
10 report acceptance body that considers and accepts  
11 the reports of the review and requires corrective  
12 actions by firms with significant deficiencies;  
13 and
- 14 (3) Make recommendations to the board as to approval of  
15 the applicant as a sponsoring organization.
- 16 (f) Annually, the peer review oversight committee shall  
17 provide the board with a report on the continued reliability of  
18 sponsoring organizations' peer reviews. The peer review  
19 oversight committee report shall provide reasonable assurance  
20 that peer reviews are being conducted and reported on  
21 consistently and in accordance with the Standards for Performing



1 and Reporting on Peer Review adopted by the American Institute  
2 of Certified Public Accountants. A summary of oversight visits  
3 shall be included with the annual report.

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

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

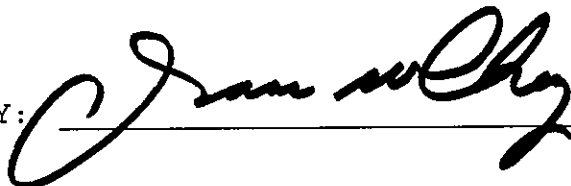
12 SECTION 2. This Act does not affect rights and duties that  
13 matured, penalties that were incurred, and proceedings that were  
14 begun before its effective date.

15 SECTION 3. New statutory material is underscored.

16 SECTION 4. This Act shall take effect upon its approval.

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INTRODUCED BY:



JAN 20 2016



# H.B. NO. 1670

**Report Title:**

Public Accountancy; Peer Review Oversight Committee

**Description:**

Allows members of the public accountancy peer review oversight committee to be reimbursed for expenses. Protects the members from civil liability for actions done in furtherance of the purposes of the committee.

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





**PRESENTATION OF THE  
BOARD OF PUBLIC ACCOUNTANCY**

TO THE HOUSE COMMITTEE ON  
ECONOMIC DEVELOPMENT & BUSINESS

TWENTY-EIGHTH LEGISLATURE  
Regular Session of 2016

Tuesday, February 2, 2016  
9:00 a.m.

**TESTIMONY ON HOUSE BILL NO. 1670, RELATING TO PUBLIC  
ACCOUNTANCY.**

TO THE HONORABLE DEREK S.K. KAWAKAMI, 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. 1670, Relating to Public Accountancy.

The proposals in House Bill No. 1670 relate to the Peer Review Oversight Committee ("PROC"), which was established by the Board pursuant to section 466-42, Hawaii Revised Statutes ("HRS") for the oversight of sponsoring organizations, which are defined as third-party entities that meet the standards for administering a peer review. A peer review is the appraisal performed by a CPA firm on the professional work of another CPA firm that does attestation services, such as audits, reviews and compilations.

The general purposes of the PROC are to: (1) monitor 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) review the policies and procedures of sponsoring organization applicants as to their conformity with the peer review standards of any applicable peer review organization and the statutes of the Board; and (3) report to the Board on the conclusions and recommendations reached as a result of performing the functions in (1) and (2) above.

The purpose of this bill is to provide for: (1) the reimbursement for expenses necessary for the performance of the duties of the PROC; and (2) the immunity from any civil liability for any act done in furtherance of the purposes for which the PROC was established.

The PROC consists of three Hawaii-licensed Certified Public Accountants who practice public accountancy in the State of Hawaii. In the performance of their duties, these CPA members of the PROC convene meetings that are subject to HRS chapter 92 (Public Agency Meetings and Records), attend meetings of the Board when necessary, and attend meetings of the sponsoring organizations' peer review committees. The Board believes that the necessary expenses related to these and other pertinent duties incurred by the PROC members should be reimbursed to the

extent that they are related to the purposes of the PROC. The proposed language in this section of the bill is identical to existing language in section 466-15(c), HRS, pertaining to Advisory Committees, which in turn mirrors the provisions relating to advisory committees established by the Department of Commerce and Consumer Affairs ("DCCA") pursuant to section 26-9(s), HRS.

Other duties of the PROC include reviewing and evaluating confidential information concerning specific CPA firms or CPA peer reviewers, and issuing reports to the Board on the continued reliability of sponsoring organizations' peer reviews. The performance of these duties and the importance of the responsibilities in the oversight of the peer review sponsoring organizations and the peer reviewers may subject the PROC and its individual CPA members to civil liability. The possibility of such liability should not impair the judgment of the members of the PROC, nor should it influence the PROC's assessment of the peer review programs. Thus, this bill makes the PROC members immune from civil liability when performing their official duties and responsibilities. The proposed language in this section of the bill is identical to existing language in section 466-15(d), HRS, pertaining to Advisory Committees, which also mirrors the provisions relating to advisory committees established by the DCCA pursuant to section 26-9(s), HRS.

Like members of advisory committees, the members of the PROC serve as volunteers and receive no compensation for the performance of their duties and responsibilities. However, without the amendments proposed in House Bill No. 1670, PROC members would not be afforded the same considerations as members of an advisory committee in the reimbursement of necessary expenses and in indemnification from civil liability.

Therefore, the Board strongly supports House Bill No. 1670. Thank you for this opportunity to testify. I will be available to answer any questions you may have.