

Larry Ikeda
77 Laukona St.
Hilo, Hawaii 96720
808-935-0242

LATE TESTIMONY

Before the Committee on Consumer Protection and Commerce

Monday, February 4, 2008 at 2:00 PM
Conference room 325

Re: Opposition to HB2257
Relating to Public Accountancy

Testimony of Larry Ikeda

Chairman Hezkes, Vice-chairman McKelvey, and Committee Members:

I oppose HB2257 (Mandatory Peer Review). Presently, peer review is voluntary and financed by the firms participating in the program. The goal of peer review is to educate and promote higher technical performance. Based on my observation over ten years as an employee at two accounting firms, the results have been impressive. Peer review was used by the Partners of the firms as another tool to educate and motivate staff personnel to strive for higher technical competence in a non-threatening environment. This bill changes the concept of peer review from a voluntary educational program to one of enforcement.

HB2257 delegates to the Board of Public Accountancy the authority to establish rules regarding mandatory peer review, while exempting the Honolulu offices and Hawaii work of the large international and out-of-state firms from peer review. In my opinion, this portion of the bill makes it clear that this bill has less to do with consumer safety but is an attempt to discourage all CPA firms except for the ones mentioned above from performing attestation work. If mandatory peer review is such a good idea, then it should apply to all CPA firms without exception. Furthermore, large CPA firms should not be able to sidestep this requirement by saying that they have internal quality control programs which are the equivalent.

In addition, the firms that this bill would exempt are affiliated with large CPA firms which have made the news in recent years for shoddy internal controls and egregious accounting mistakes. Those events have directly caused many people to experience economic hardship and suffering. It seems to me that this bill should be directed at those large CPA firms and exempt the smaller CPA firms because most of the smaller CPA firms are already participating in a voluntary peer review program, which appears to be having the desired results.

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ROBERTS
Certified Public Accountants, A Professional Corporation

LATE TESTIMONY

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Monday, February 4, 2008 at 2:00 p.m.
Conference Room 325

Re: Opposition to HB 2257
Relating to Public Accountancy

Testimony of John W. Roberts

Chair Herkes, Vice-chair McKelvey, and committee members:

I oppose the mandatory peer review requirement of HB2257 for four reasons. First, it places overly broad discretionary powers on the details of peer review in the hands of a seemingly dysfunctional Board of Public Accountancy. Second, mandatory peer review is redundant as most firms in Hawaii already participate in a voluntary peer review program. Third, HB 2257 is discriminatory by excluding the work of the Hawaii offices of international firms. And fourth, peer review has failed to protect the public by stopping audit engagement failures. In the interest of time, I will limit the rest of my testimony to problems at the Board of Public Accountancy that would make HB 2257 impractical to implement.

The Board of Public Accountancy (Board) has failed to demonstrate that it can implement the simple provisions of Hawaii CPA licensing laws already on the books. The recent experience of my firm demonstrates how the Board has cost Hawaii good-paying jobs and tax revenues.

I am a CPA and principal in the Maui CPA firm of Niwao & Roberts, CPAs, a P. C. Like many small firms in Hawaii, we have our own unique abilities that translate into competitive advantages. Our firm was approached to perform a consulting project for an organization with headquarters on the East Coast. All of the work was performed from our office on Maui. After proving ourselves, we were asked to take on a much larger engagement that would have required opening a satellite office on the East Coast and licensing in another state. After assessing the logistics and staffing requirements as well as applying for CPA

licensing in another state, we had one hurdle left: complete the certification process needed to qualify our firm as a vendor.

This should have been an easy. Unfortunately, one glitch surfaced beyond our control – we needed to certify that our firm was in compliance with the licensing laws of the State of Hawaii. Unfortunately, not one firm in the State of Hawaii is in compliance with HRS §466-7 which requires that all firms obtain a permit to practice.

To remedy the problem, we wrote the Board the attached letter dated November 27, 2007 to request that we be issued a firm permit. It is now early February 2008, and we have yet to receive a reply from the Board. Although this law has been on the books for many years, our firm was forced to withdraw our name from the engagement at the last minute and refer the work to an international consulting firm because the Board has yet to develop the forms and rules for issuing firm permits to practice.

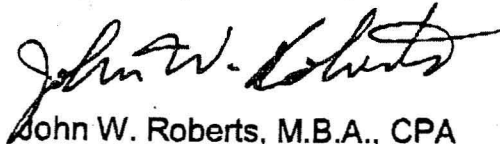
Our firm did not need tax credits, grants, or subsidies from the legislature and taxpayers to bring good-paying jobs to Hawaii. All we needed was for the Board of Public Accountancy to do its job and implement the simplest of laws.

I have recommendations for restoring the Board of Public Accountancy into an asset for both the CPA profession and the consumers in Hawaii. I would be happy to discuss them or how the Board cost our firm a large contract in more detail, if you wish.

With respect to HB 2257, until the Board demonstrates that it can carry out its responsibility to implement simple licensing laws already on the books, it is a waste of your time to even consider tasking the Board to develop and implement complex rules governing peer review.

Thank you for your consideration.

Respectfully submitted,



John W. Roberts, M.B.A., CPA

Enclosure: Letter to the Board of Public Accountancy dated November 27, 2007

LATE TESTIMONY

**NIWAO
&
ROBERTS**

Certified Public Accountants, A Professional Corporation

November 27, 2007

Mr. Howard Todo, Chairman, and
Members of the Hawaii Board of Public Accountancy
DCCA-PVL
Att: Acct
P.O. Box 3469
Honolulu, HI 96801

Re: Firm Permit to Practice for Niwao & Roberts, Certified Public Accountants,
a Professional Corporation

Ladies and Gentlemen:

We respectfully request that our firm be issued a permit to practice as required
by Hawaii Revised Statutes (HRS) §466-7.

HRS §466-7 states, in part:

- (d) All firms shall obtain a permit to practice. The board may issue or renew a permit to actively engage in the practice of public accountancy to any firm which submits a completed application and demonstrates qualifications as prescribed by the board.
- (e) Failure to submit the required fees, continuing education hours, or other requirements for renewal as specified in this section by December 31 of every odd-number year, shall constitute forfeiture of the permit. Continued performance in the practice of public accountancy without a permit shall constitute unlicensed activity and the individual or firm shall be subject to sections 466-9 and 466-11, section 487-13, and section 26-9.

Even though the firm permit to practice requirement has been law for years, the Board of Public Accountancy has yet to implement rules and develop application forms for issuing permits to practice to firms. In failing to do so, all certified public accounting firms in the State of Hawaii appear to have been and continue to be engaged in unlicensed activity as described in HRS § 466-7 (e) above. Since we cannot certify that our firm is in compliance with Hawaii's professional licensing

laws, this status raises questions whether our firm's errors and omissions insurance policy would be valid if a claim is ever filed against our firm. It also impairs our firm's ability to market our services outside of the State of Hawaii.

The lack of a firm permit to practice, as required by Hawaii law, continues to place our firm at a competitive disadvantage compared to CPA firms based in other states. We understand the Board has been aware of this situation for at least a few years, and, therefore, we respectfully request that you please issue a permit to practice to our firm.


Should you require additional information, please contact us.

Thank you for your assistance in this matter.

Very truly yours,



Marilyn M. Niwao, J.D., CPA
President



John W. Roberts, M.B.A., CPA
Vice President

Enclosure: Copy of HRS 466-7 (d) and (e)

(c) A person who, on January 1, 1974, holds a license of public accountant under the laws of this State theretofore existing, shall not be required to obtain an additional license under this chapter, but shall otherwise be subject to all the provisions of this chapter; and such previous license shall, for all purposes, be considered a license under this chapter and subject to the provisions herein.

§466-7 Permits to practice. (a) A license and permit are required to actively engage in the practice of public accountancy. The board may grant or renew a permit to actively engage in the practice of public accountancy. Permits shall be initially issued and renewed for periods of two years but in any event shall expire on December 31 of every odd-numbered year. The board shall prescribe the methods and requirements for application.

(b) An applicant for the initial issuance or renewal of a permit shall have:

- (1) A valid license;
- (2) Completed continuing professional education hours, the content of which shall be specified by the board which may provide for special consideration by the board to applicants for permit renewal when, in the judgment of the board, full compliance with all requirements of continuing education cannot reasonably be met;
- (3) Completed an application; and
- (4) Paid appropriate fees and assessments.

(c) The board may grant a temporary permit to actively engage in the practice of public accountancy to any person who:

- (1) Has attained eighteen years of age;
- (2) Possesses a history of competence, trustworthiness, and fair dealing;
- (3) Holds a valid license of certified public accountant or of public accountant issued under the laws of another state, or who holds a valid comparable certificate, registration, or license or degree from a foreign country determined by the board to be a recognized qualification for the practice of public accountancy in such other country;
- (4) Incidental to the person's practice in such other state or country, desires to practice public accountancy in this State on a temporary basis; and
- (5) Has completed an application.

Such permit shall be effective for a period not exceeding three months, and shall specify the nature and extent of the practice so permitted.

(d) All firms shall obtain a permit to practice. The board may issue or renew a permit to actively engage in the practice of public accountancy to any firm which submits a completed application and demonstrates qualifications as prescribed by the board.

(e) Failure to submit the required fees, continuing education hours, or other requirements for renewal as specified in this section by December 31 of every odd-numbered year, shall constitute forfeiture of the permit. Continued performance in the practice of public accountancy without a permit shall constitute unlicensed activity and the individual or firm shall be subject to sections 466-9, 466-11, 487-13, and 26-9.

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LATE TESTIMONY

Jane Green Rodgers, CPA
75-5789 Kakalina St.
Kailua Kona, HI 96740
(808) 329-6780

Before the Committee on Consumer Protection And Commerce

Monday, February 4, 2008 at 2:00 p.m.
Conference Room 325

Re: Opposition to HB2257

Relating to Public Accountancy

Testimony of Jane G. Rodgers, CPA

Chair Herkes, Vice-chair McKelvey, and committee members:

I oppose the mandatory peer review requirement of HB2257. Presently, peer review is voluntary and educational, and appears to be accomplishing its intended purpose. If peer review becomes mandatory and regulatory, a CPA can lose his/her permit to practice. Mandatory peer review would apply to those performing "attest" work, i.e., compilations, reviews, audits, and attestation engagements.

HB2257 delegates to the Board of Public Accountancy the authority to establish rules regarding mandatory peer review, while exempting the Honolulu offices and Hawaii work of the large international and out-of-state firms from peer review. This exemption is unfair as it only places the permits for local CPAs at risk and imposes a monetary burden only on local CPA firms, many of whom are already voluntarily being peer reviewed.

In order to have mandatory peer review for firms, firms must be defined and issued permits-to-practice as required under the Hawaii Revised Statutes. The Board has failed to issue firm permits (for years) because of a lack of forms and rules, and so requiring mandatory peer review for firms is premature at this time.

Too many questions remain unanswered regarding mandatory peer review, such as the additional cost that CPA practitioners would incur, who is to administer the program, whether due process concerns will be addressed, and whether membership in certain CPA organizations would become mandatory

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(which is objectionable, but is currently contemplated by the proponents of this bill).

To avoid unintended consequences to CPAs and their firms, the law should be clear and specific, and not left up to the discretion of the Board of Public Accountancy. Furthermore, the law should be applied uniformly to all those practicing public accounting in Hawaii. For these reasons, I urge you to oppose HB2257. Thank you for this opportunity to testify.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Jane Green Rodgers".

Jane Green Rodgers, CPA

LATE TESTIMONY

Brian M. Iwata, CPA
101 Aupuni St., #139
Hilo, HI 96720

February 2, 2008

The Honorable Representative Robert N. Herkes, Chair
The Honorable Representative Angus L. McKelvey, Vice Chair
Committee on Commerce, Consumer Protection, and Housing
Hawaii State Capitol, Conference Room 325
415 South Beretania Street
Honolulu, HI 96813

Re: **Opposition to HB 2257**
Relating to Public Accountancy

Chair Herkes, Vice-chair McKelvey, and committee members:

I oppose the mandatory peer review requirement of HB 2257. Presently, peer review is voluntary and educational and never meant to be punitive in nature. If this bill is passed peer review will become mandatory and regulatory and a CPA can lose his/her right to practice.

HB 2257 will delegate to the Board of Public Accountancy (Board) the authority to establish rules regarding mandatory peer review. Because this is a major legislation that will affect all CPAs in Hawaii, the law should be clear and specific set by the legislature and for the Board to administer rather than having them making rules for the profession. The Board should role should always be one to administer the law and carry out the intent of the legislation.

Futhermore, there are many questions that remain unanswered regarding mandatory peer review, such as the additional cost to undergo the peer review process, will the DCCA administer the program without delegating it to an outside entity or board, whether CPAs will have due process concerns properly addressed and will the program be equally applied to all CPA offices in the state.

I urge this committee to oppose HB 2257.

Thank you for this opportunity to testify.

Respectfully submitted,



Brian M. Iwata, CPA