



H S C P A

Hawaii Society of
Certified Public Accountants

LATE TESTIMONY

Before the House Committee on Finance

Friday, March 26, 2010
12:00 p.m. in Conference Room 308

In Support of SB 2501, SD1, HD1 – With Amendment

Relating to Public Accountancy

Testimony of Wendell Lee, CPA
President, Hawaii Society of CPAs

900 Fort Street

Suite 850

P.O. Box 1754

Honolulu, Hawaii 96806

Tel: (808) 537-9475

Fax: (808) 537-3520

E-mail: info@hscpa.org

Website: www.hscpa.org

Chair Oshiro, Vice Chair Lee, and Committee Members:

Thank you for the opportunity to testify. The Board of Directors of the Hawaii Society of Certified Public Accountants (HSCPA) strongly supports mandatory peer review for CPA firms performing accounting and auditing engagements that do not audit publicly traded companies. This does not exempt any firm. Those firms which audit publicly-traded companies undergo a much more rigorous peer review program by the National Peer Review Committee and the Center for Audit Quality, inspection reviews as mandated by the Public Company Auditing Oversight Board (PCAOB), in addition to numerous internal reviews by a third party.

We are requesting clarification and amendment to "level the playing field" and application to all CPA firms in Hawaii. The proposed language as follows:

A firm issued a substandard peer review report, as defined by the board in regulation, shall submit a copy of that report to the board. The board shall establish in regulation the time period that a firm must submit the report to the board. This period shall not exceed 60 days from the time the report is accepted by a board-recognized peer review program provider to the date the report is submitted to the board. These reports may be filed with the board electronically.

The Hawaii engagements of the multistate offices in Hawaii are already included in the scope of the firm's peer review. Peer review is opining on a system, not a specific engagement. Firms have a system of quality control that can be tested in any sample and doesn't vary state to state in order to best mitigate risk in a way that protects the public.

To evaluate the effectiveness of the system and the degree of compliance with the system, the reviewer will test a reasonable cross-section of the firm's engagements with a focus on high-risk engagements. Multistate firms have more at risk and therefore must monitor their quality control systems and processes through internal peer reviews and make changes when improvements that could enhance audit quality are identified.

We hope this clarifies the differences between having peer review done at the firm level, rather than by office.

Respectfully submitted,

Wendell Lee, CPA
President
HSCPA Board of Directors



840 Alua St., Suite 203
Wailuku, Maui, Hawaii 96793
(808) 244-5531 Fax (808) 244-5218
cpa@mauicpa.net

Ronald A. Kawahara & Co.,
Certified Public Accountants, Inc.

Before the Committee on Finance
Friday, March 26, 2010 at 12:00 p.m.
Conference Room 308

Re: Support for SB2501, SD1, HD1
Relating to Public Accountancy

Testimony of Robert S Kawahara

LATE TESTIMONY

Chair Oshiro, Vice Chair Lee, and committee members:

I am a CPA and the Vice President of Ronald A Kawahara & Co., Certified Public Accountants, Inc. Our firm has been voluntarily participating in the Peer Review since its inception.

SB2501, SD1, HD1 provides for mandatory peer review once every three years for a CPA firm's attest work, in conjunction with the renewal of a CPA firm's permit to practice. I am in favor of measures to improve the quality of the public accounting profession in Hawaii. I also support the language of SB2501, SD1, HD1 in that the requirements for peer review are applied equitably to all CPA firms practicing public accountancy in Hawaii, including the Hawaii offices and Hawaii engagements of the large international CPA firms (which are usually not selected for peer review).

If an exception is made to exempt the Hawaii offices and Hawaii engagements of these foreign or multi-state firms from peer review, only local firms would be at risk for losing their firms' permit to practice and only local firms would be required to take remedial measures. In addition, exempting the Hawaii offices and Hawaii engagements of the large CPA firms is not in the best interest for Hawaii consumers who depend upon the Hawaii work product of CPA firms who do business in Hawaii.

Thank you for your consideration of the above.

Respectfully submitted,

Robert S. Kawahara, CPA
Vice President





840 Alua St., Suite 203
Wailuku, Maui, Hawaii 96793
(808) 244-5531 Fax (808) 244-5218
cpa@mauicpa.net

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**Re: Support for SB2501, SD1, HD1
Relating to Public Accountancy**

Testimony of Ronald A Kawahara

LATE TESTIMONY

Chair Oshiro, Vice Chair Lee, and committee members:

I am a CPA and the President of Ronald A Kawahara & Co., Certified Public Accountants, Inc. Our firm has been voluntarily participating in the Peer Review since its inception.

SB2501, SD1, HD1 provides for mandatory peer review once every three years for a CPA firm's attest work, in conjunction with the renewal of a CPA firm's permit to practice. I am in favor of measures to improve the quality of the public accounting profession in Hawaii. I also support the language of SB2501, SD1, HD1 in that the requirements for peer review are applied equitably to all CPA firms practicing public accountancy in Hawaii, including the Hawaii offices and Hawaii engagements of the large international CPA firms (which are usually not selected for peer review).

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Thank you for your consideration of the above.

Respectfully submitted,

Ronald A. Kawahara, CPA
President



LATE TESTIMONY

Thelma Carinio
3845 Likini Street
Honolulu, Hawaii 96818

Before the House Committee on Finance

Friday, March 26, 2010
12:00 P.M.
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In Support of SB 2501, SD1, HD1 -- With Clarification

Relating to Public Accountancy

Chair Oshiro, Vice Chair Lee, and Committee Members:

Mandatory peer review for CPAs will fulfill the public's expectations and ensure that CPA-prepared financial statements are prepared pursuant to uniform professional standards.

The arguments of this bill relate to exempting multistate/international firms. They are not exempt. Those firms that audit publicly traded companies are required to undergo a much more rigorous peer review program through the Center for Audit Quality, the National Peer Review Committee, and the Public Company Audit Oversight Board (PCAOB). All offices within a firm must be included in the scope of the peer review.

To level the playing field, the law should then require that all CPA firms in Hawaii be required to submit evidence of peer review, and if the firm received a substandard report, the Hawaii Board of Public Accountancy may take such correction action.

Thank you for the opportunity to testify.

G. USHIJIMA CPA LLC

Before the Committee on Finance

Friday, March 26, 2010 at 12:00 p.m.

Re: Support for SB2501, SD1, HD1

Relating to Public Accountancy

Testimony of GERALD USHIJIMA

LATE TESTIMONY

Chair Oshiro, Vice Chair Lee, and committee members:

We are a local CPA firm who has been subject to the peer reviews for the past 12 years or so. No question, it has increased my costs of doing business, but there have been benefits.

SB2501, SD1, HD1 provides for mandatory peer review once every three years for a CPA firm's attest work, in conjunction with the renewal of a CPA firm's permit to practice. I am in favor of measures to improve the quality of the public accounting profession in Hawaii. I also support the language of SB2501, SD1, HD1 in that the requirements for peer review are applied equitably to all CPA firms practicing public accountancy in Hawaii, including the Hawaii offices and Hawaii engagements of the large international CPA firms (which are usually not selected for peer review).

If an exception is made to exempt the Hawaii offices and Hawaii engagements of these foreign or multi-state firms from peer review, only local firms would be at risk for losing their firms' permit to practice and only local firms would be required to take remedial measures. In addition, exempting the Hawaii offices and Hawaii engagements of the large CPA firms is not in the best interest for Hawaii consumers who depend upon the Hawaii work product of CPA firms who do business in Hawaii.

The multi-state or national firms would argue that they are being reviewed on a national basis, they don't need a local review. Fact of the matter is that they are the very ones who have created much of the public distrust because of their past actions. See the Honolulu Advertiser article dated March 13, 2010 criticizing the national CPA firm of Ernst & Young for the "accounting tricks"...this makes the case that their Honolulu office should be subject to the same rules that apply to us local firms; which we believe is the fair solution.

Thank you for your consideration of the above.

Respectfully submitted,


GERALD USHIJIMA

Lehman Brothers played accounting tricks

Shell game with toxic assets led to national meltdown

BY MARCY GORDON
Associated Press

WASHINGTON — An accounting gimmick called Repo 105 provided financial relief for Lehman Brothers in the months before its spectacular collapse, an autopsy of the once-venerable Wall Street house has found. The question now is whether the trickery spells legal jeopardy for executives of Lehman or its auditors Ernst & Young.

The implosion of Lehman Brothers Holdings Inc. into the biggest bankruptcy in U.S. history in September 2008 precipitated the financial meltdown that plunged the economy into the most severe recession since the 1930s.

How did it happen?

After saddling itself with tens of billions of troubled assets that couldn't easily be

sold, Lehman masked its debt and perilous financial condition by using the accounting artifice, an examiner appointed by the bankruptcy court found in a 2,200-page report on a year-long investigation.

The examiner, Anton Valukas, discovered that Lehman put together complex transactions that allowed the firm to sell "toxic" securities, mostly mortgages, at the end of a quarter — wiping them off its balance sheet when regulators and shareholders were examining it — and then to quickly buy them back. Thus, the "repo," for repurchase.

"It's a very damaging report and certainly is something that is going to be carefully scrutinized by federal prosecutors," said Robert Mintz, a former Justice Department prosecutor who is a private defense attorney.

Now, thanks to the work by Valukas, Repo 105 has entered the pantheon of phras-



Associated Press file photo

Former Lehman CEO Richard Fuld was heckled after testifying on Capitol Hill in 2008. Lehman executives who knew about the Repo 105 tricks could face prosecution.

es for accounting chicanery, along with Enron's Jedi, Chewco and Raptor partnerships and the Buco Nero (black hole) offshore account stashed away by the fallen Italian dairy giant Parmalat.

In the sagas of those two companies, the role of the accounting firms was cen-

tral. Even members of Lehman's accounting staff, in e-mails unearthed by the examiner, called the Repo 105 concoctions an "accounting gimmick" and "a lazy way of

managing the balance sheet as opposed to legitimately meeting ... targets at quarter end."

In the meltdown's wake, the Justice Department and the SEC launched wide-ranging investigations of companies across the financial services industry — investigations believed to include insurer American International Group Inc. and mortgage giants Fannie Mae and Freddie Mac as well as Lehman.

A year and a half after the financial crisis struck, charges haven't yet come in most of the probes.

It's daunting to make a case in a complicated white-collar investigation. "These are often incredibly complicated cases," Mintz said. "Prosecutors need strong and unequivocal evidence of wrongdoing."

But in the Lehman affair,

there's a new road map.

The Justice Department and the SEC "have the benefit of a very substantive and comprehensive investigation," said Peter Haveles, head of the financial services litigation department at law firm Kaye Scholer in New York. "It greatly facilitates the efforts of each of those agencies to evaluate and determine whether to bring charges."

Valukas' report doesn't reach a conclusion on whether executives violated securities laws. It does say their decision not to disclose the effects of its business judgments "does give rise to colorable claims against the senior officers who oversaw and certified misleading financial statements."

Colorable claims means there appears to be sufficient grounds to win civil damages in court.

LEONG & FONG
CERTIFIED PUBLIC ACCOUNTANTS

EDWIN Y. W. FONG, CPA

HASEKO CENTER
829 MILILANI ST. SUITE 200
HONOLULU, HAWAII 96813
TELEPHONE (808) 533-6376
FAX (808) 523-1452
Email: efw@leongandfongcpa.com

Before the Committee on Finance
Friday, March 26, 2010 at 12:00p.m.
Conference Room 308
Re: Support for SB2501, SD1, HD1
Relating to Public Accountancy
Testimony of Edwin Y.W. Fong, CPA

LATE TESTIMONY

Chair Oshiro, Vice Chair Lee and committee members:

I am Edwin Fong, partner of Leong and Fong, CPA's. I have been a practicing CPA since March 1966. Although I am not an advocate of the mandatory peer review in the event it is legislated, I support the language of SB2501, SD1, HD1 in which requirements for peer review are applied equitably to all CPA firms engaged in the practice of public accountancy in Hawaii without exception. This would include the Hawaii offices and Hawaii engagements of the large international CPA firms.

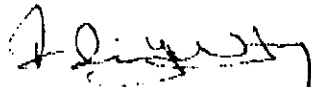
If one CPA in Hawaii is subject to mandatory peer review so should all others regardless of their size and affiliation. There should be no exception to the rule. I do not see the rationale of large international firms being exempted.

Only local firms would be at risk for losing their firms' permit to practice and be required to implement remedial measures. If an exception is made to exempt the Hawaii offices and Hawaii engagements of these foreign or multi-state firms from the peer review. The large national and multi-national CPA firms were unable to alert the public of the Enron and Madoff melt downs. Therefore, their practice procedures are suspect and should be subject to review. This does not bode well with public confidence. So size does not give them a pass.

Exempting the Hawaii offices and Hawaii engagements of the large CPA firms is not in the best interest for Hawaii consumers as it does not insure that all CPAs practicing in Hawaii are held to the same standards.

Thank you for your consideration of my thoughts.

Respectfully submitted,



Edwin Y.W. Fong, CPA

FINTestimony

From: mailinglist@capitol.hawaii.gov
Sent: Friday, March 26, 2010 11:15 AM
To: FINTestimony
Cc: gyucpa@aol.com
Subject: Testimony for SB2501 on 3/26/2010 12:00:00 PM

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Testimony for FIN 3/26/2010 12:00:00 PM SB2501

Conference room: 308
Testifier position: support
Testifier will be present: Yes
Submitted by: Gerald YUshijima
Organization: GERALD Y. USHIJIMA, CPA
Address: 1110 UNIVERSITY AVENUE SUITE 508 HONOLULU, HI 96826-1508
Phone: (808) 949-5588
E-mail: gyucpa@aol.com
Submitted on: 3/26/2010

Comments: