

**PRESENTATION OF THE
BOARD OF PUBLIC ACCOUNTANCY**

**TO THE HOUSE COMMITTEE ON
CONSUMER PROTECTION AND COMMERCE**

**TWENTY-FIFTH LEGISLATURE
Regular Session of 2010**

**Wednesday, March 10, 2010
2:00 p.m.**

**TESTIMONY ON SENATE BILL NO. 2501, S.D. 1, RELATING TO PUBLIC
ACCOUNTANCY.**

**TO THE HONORABLE ROBERT N. HERKES, CHAIR,
AND MEMBERS OF THE COMMITTEE:**

My name is Thomas Ueno and I am the Vice-Chairperson of the Board of Public Accountancy ("Board"). Thank you for the opportunity to present testimony on Senate Bill No. 2501, S.D. 1, Relating to Public Accountancy.

The purpose of this bill is to provide a mechanism for firms engaged in the practice of public accountancy to undergo peer review on a regular basis; and to grant the Board appropriate power to regulate the peer review process.

The Board is meeting at 8:30 a.m. on the morning of Wednesday, March 10, 2010, the day that this bill is scheduled to be heard. The Board will be discussing the significant amendments to the bill that have been proposed by the Senate Committee on Commerce and Consumer Protection in its Senate Draft 1. Due to the timing of this hearing, the official testimony that I will be presenting at this hearing will be the Board's position regarding the amendments to Senate Bill No. 2501, as determined at the Board's morning meeting on March 10, 2010.

Testimony on Senate Bill No. 2501, S.D. 1
Wednesday, March 10, 2010
Page 2

Thank you for the opportunity to provide testimony on Senate Bill No. 2501, S.D. 1. As I mentioned earlier, I will be happy to answer any questions you may have on the Board's position as discussed by the Board at its meeting on March 10, 2010.

From: HSCPA Communication [info@hscpa.org]
Sent: Tuesday, March 09, 2010 2:43 PM
To: CPCtestimony
Subject: Testimony in Support of SB 2501, SD 1 - Hearing: 3/10/10, 2:00 p.m., Room 325
Attachments: image001.gif; image002.jpg; image003.jpg

Before the House Committee on Consumer Protection and Commerce

Wednesday, March 10, 2010
2:00 p.m.
Conference Room 325

In Support of SB 2501, SD1

Relating to Public Accountancy

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

Chair Herkes, Vice Chair Wakai, 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. Firms that audit publicly traded companies already undergo a much more rigorous peer review program through the Center for Audit Quality and PCAOB.

SB 2501, SD1 requires some clarification for consistency purposes. Peer review is conducted once every three years, and a permit to practice is renewed every two years. Therefore, the language should clarify that a firm shall submit evidence of completion of a peer review within the past three years. Another point of clarification should indicate that with respect to international or multistate firms, all Hawaii offices and Hawaii engagements must be included in the scope of the peer review.

The unsuspecting public deserves to know that a CPA firm's quality control policies and procedures are in accordance with those professional standards promulgated by the accounting profession and that the firm is complying with those policies and procedures.

The peer review process includes rigorous checks and balances through the administration and oversight of the process. Peer review will add a critical layer of protection against professional deficiencies or misconduct. This, we owe to the public.

Respectfully submitted,





March 8, 2010

VIA EMAIL: repwakai@Capitol.hawaii.gov

Committee on Consumer Protection & Commerce
Hawaii State Capitol, Room 316
415 South Beretania Street
Honolulu, HI 96813

Re: S.B. NO. 2501 S.D. 1, Date & Time of Hearing: Wednesday, March 10, 2010 at 2:00 PM

Dear Chair Herkes, Vice Chair Wakai and Committee Members:

I strongly support the mandatory peer review requirement for CPAs. I support mandatory peer review in order to provide a level of assurance that financial statements prepared and issued by CPAs in the State of Hawaii are uniformly prepared in accordance with established professional standards.

The benefits of mandatory peer review program will: (1) improve the quality of the financial statements being prepared and issued by CPAs in the State of Hawaii; (2) enhance the creditability and reliability of financial statements prepared and issued by CPAs in the State of Hawaii; (3) most importantly, provide a greater level of confidence to the public and users of such financial statements, who currently, but incorrectly, believe that all CPAs participate in a peer review process or practice monitoring program to ensure that those statements comply with established professional standards.

Additionally, we are one of the few remaining states that have yet to enact a mandatory peer review requirement for CPA's (42 states have a mandatory peer review requirement).

For these reasons, I urge you to support mandatory peer review for CPAs as it will provide the public with an improved level of assurance that CPA-prepared financial statements are issued pursuant to uniform professional standards, and most importantly fulfill the public's expectations and reliance thereon.

Additionally, I suggest that the Committee consider modifying the measure as follows:

- §466-13(a), should be modified to read, "Every firm, including the Hawaii offices and Hawaii engagements of foreign or multistate firms, required to obtain a firm permit to practice pursuant to section 466-7 and provide attest services shall participate in a peer review process described in this section, and certify as to the firm's participation at the time of the renewal of the firm's permit to practice under section 466-7 as prescribed by the board."

Rationale for Modification – Modification is necessary since the phrase “...shall undergo peer review on the firm’s attest work at the time of the renewal of the firm’s permit to practice under section 466-7” does not take into account that firms which currently participate in the prevailing AICPA Peer Review Program are peer reviewed only once in every three years. The measure if not modified would appear to require that a firm be peer reviewed every two years (section 466-7 provides for a firm’s permit renewal every two years), also the measure literally suggest that the required firms undergo a peer review at the time they applying for their permit renewal which is impractical and probably not intended. Additionally with the deletion of “shall undergo peer review on the firm’s attest work,” clarification is required that only firms which provide “attest” services are required to be peer reviewed.

- §466-13(e), should be modified to read, “Neither the proceedings nor the records of the peer review process shall be subject to discovery. Except as hereinafter provided, no person in attendance at the proceedings shall be required to testify as to what transpired at the meeting; provided that the statements made by any person in attendance at the meeting who is a party to an action or proceeding the subject matter of which was reviewed at the meeting, shall be subject to discovery.”

Rationale for Modification – Modification necessary since this subsection in the measure makes reference in the second sentence to “committee” which was deleted in SB 2501, and in the first sentence of the subsection.

For the above reasons, I urge you to support mandatory peer review for CPAs, who perform attest services, to include the suggested modifications.

Very truly yours,



Mike Nitta
Chief Financial Officer
Castle Resorts & Hotels

Cronin, Fried, Sekiya, Kekina & Fairbanks

Attorneys at Law, A Law Corporation

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Gerald Y. Sekiya
David L. Fairbanks
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Denise K. H. Kawatachi
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March 8, 2010

VIA EMAIL: CPCtestimony@Capitol.hawaii.gov

Committee on Consumer Protection & Commerce
House of Representatives
The Twenty-Fifth Legislature
Regular Session of 2010
Hawaii State Capitol, Room 316
415 South Beretania Street
Honolulu, Hawaii 96813

Re: Testimony In Support of SB 2501, SD 1 – Relating to Public Accountancy
Date & Time of Hearing: Wednesday, March 10, 2010 at 2:00 p.m.

Dear Chair Herkes, Vice-Chair Wakai and Committee Members:

I strongly support the mandatory peer review requirement for CPAs. Mandatory peer review will provide a higher level of assurance that financial statements prepared and issued by CPAs in the State of Hawaii are uniformly prepared in accordance with established professional standards.

Mandatory peer review is not something new. Member firms of the American Institute of Certified Public Accountants, ("AICPA"), who prepare and issue financial statements, have been required to participate in the AICPA Peer Review Program since 1988. The current national debate is not whether peer review should be mandatory (42 states have mandatory peer review) but, rather, should peer review findings be made transparent and disclosed to better inform and protect the public's interest (similar to the review results of the Public Company Oversight Accounting Board ("PCAOB") created under the Sarbanes-Oxley Act for publicly-held companies)?

I believe that the benefits of mandatory peer review program will: (1) improve the quality of the financial statements being prepared and issued by CPAs in the State of Hawaii; (2) enhance the creditability and reliability of financial statements prepared and issued by CPAs in the State; and (3) most importantly, provide a greater level of confidence to the public and users of such financial statements who currently, but incorrectly, believe that all Hawaii CPAs participate in a peer review process or practice monitoring program to ensure that those statements comply with established professional standards.

In addition, I suggest that the Committee consider amending or modifying the bill as follows:

- §466-13(a), should be amended or modified to read, "Every firm, including the Hawaii offices and Hawaii engagements of foreign or multistate firms, required to obtain a firm permit to practice pursuant to section 466-7 and provide attest services shall participate in a peer review process described in this section, and certify as to the firm's participation at the time of the renewal of the firm's permit to practice under section 466-7 as prescribed by the board."

Reason for the amendment or modification: *The modification is necessary because the phrase "...shall undergo peer review on the firm's attest work at the time of the renewal of the firm's permit to practice under section 466-7" does not take into account that firms which currently participate in the prevailing AICPA Peer Review Program are peer reviewed only once in every three years. If not modified, the measure would appear to require that a firm be peer reviewed every two years (section 466-7 provides for a firm's permit renewal every two years). Also, the measure literally suggests that the affected firms undergo a peer review at the time they apply for their permit renewal, which is impractical and probably is not intended. With the deletion of the phrase "shall undergo peer review on the firm's attest work," clarification is required to state that only firms which provide "attest" services are required to be peer reviewed.*

- §466-13(e), should be amended or modified to read, "Neither the proceedings nor the records of the peer review process shall be subject to discovery. Except as hereinafter provided, no person in attendance at the proceedings shall be required to testify as to what transpired at the meeting; provided that the statements made by any person in attendance at the meeting who is a party to an action or proceeding the subject matter of which was reviewed at the meeting, shall be subject to discovery."

Reason for the amendment or modification: *The modification is necessary because this subsection makes reference to "committee" (in the second sentence), which was deleted in SB 2501, and in the first sentence of the subsection.*

For the above reasons, I urge you to support mandatory peer review for CPAs, because it will provide the public with an improved level of assurance that CPA-prepared financial statements are prepared pursuant to uniform professional standards, and, more importantly, meet the public's expectations and reliance on them.

Very truly yours,



David L. Fairbanks



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March 8, 2010

VIA EMAIL: repwakai@Capitol.hawaii.gov

Committee on Consumer Protection & Commerce
Hawaii State Capitol, Room 316
415 South Beretania Street
Honolulu, HI 96813

Re: S.B. NO. 2501 S.D. 1, Date & Time of Hearing: Wednesday, March 10, 2010 at 2:00 PM

Dear Chair Herkes, Vice Chair Wakai and Committee Members:

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The benefits of mandatory peer review program will: (1) improve the quality of the financial statements being prepared and issued by CPAs in the State of Hawaii; (2) enhance the credibility and reliability of financial statements prepared and issued by CPAs in the State of Hawaii; (3) most importantly, provide a greater level of confidence to the public and users of such financial statements, who currently, but incorrectly, believe that all CPAs participate in a peer review process or practice monitoring program to ensure that those statements comply with established professional standards.

Additionally, we are one of the few remaining states that have yet to enact a mandatory peer review requirement for CPA's (42 states have a mandatory peer review requirement).

For these reasons, I urge you to support mandatory peer review for CPAs as it will provide the public with an improved level of assurance that CPA-prepared financial statements are issued pursuant to uniform professional standards, and most importantly fulfill the public's expectations and reliance thereon.

Additionally, I suggest that the Committee consider modifying the measure as follows:

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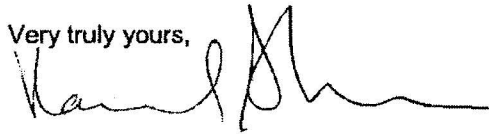
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Rationale for Modification – Modification necessary since this subsection in the measure makes reference in the second sentence to “committee” which was deleted in SB 2501, and in the first sentence of the subsection.

For the above reasons, I urge you to support mandatory peer review for CPAs, who perform attest services, to include the suggested modifications.

Very truly yours,



Kamel Abouchacra
Associate International Accounting & Assurance Director



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March 6, 2010

Via Email: CPCtestimony@Capitol.hawaii.gov

Committee on Consumer Protection & Commerce
House of Representatives
The Twenty-Fifth Legislature
Regular Session of 2010
State Capital
Honolulu, Hawaii

Re: S.B. NO. 2501 S.D. 1, Date & Time of Hearing: Wednesday, March 10, 2010 at 2:00 PM

Dear Chair Herkes, Vice Chair Wakai and Committee Members:

On behalf of the 18 employees at Horwath Kam & Company and the undersigned, we strongly urge the Committee to pass this measure with certain modification, if possible.

As an active member in the CPA profession for over 30 years, I believe that I'm qualified to provide testimony to this Committee regarding S.B. 2501, S.D. 1, which is objective, authoritative and properly focused on the need for greater public trust. My experience and qualifications are as follows:

- Founder and Managing Director of Horwath Kam & Company, An Accountancy Corporation, established in 1983 as a small local CPA firm, which is now a midsize CPA firm and a member firm of Crowe Horwath International.
- Our firm has participated in the American Institute of Certified Public Accountants ("AICPA") Peer Review Program since 1989.
- Our firm was the first local CPA firm in Hawaii to have met the PCAOB registration requirements.
- Served as the former Chair of the Investigative Committee for Peer Review of the State of Hawaii Board of Public Accountancy.
- In my professional capacity and as a member of nonprofit organizations, I had to deal with deficient financial statements of businesses and nonprofits which were prepared by CPAs who did not undergo peer review.

Before proceeding to why we strongly support the measure, it would be beneficial to provide an overview of the AICPA Peer Review Program, which is set forth below.

Brief History

Since its inception, the program has been amended several times to expand its reach and strengthen its effectiveness. The Peer Review Program continues to evolve in response to changing market needs.

- 1977 - Voluntary AICPA Peer Review Program established.
- 1988 - AICPA bylaw approved requiring all AICPA members active in the practice of public accounting to be associated with a firm that is enrolled in an AICPA approved practice-monitoring program.
- 2000 – AICPA bylaw amendment approved requiring *individual* CPAs to enroll in an Institute-approved practice-monitoring program if they perform compilation services in firms or organizations not eligible to enroll in such a program.
- 2001 – AICPA Standards for Performing and Reporting on Peer Reviews revised to include three different levels of peer reviews – “System,” “Engagement” and “Report” Reviews, discussed below.

Summary of the Peer Review Program

The AICPA Peer Review Program is carried out in conjunction with participating state CPA societies and overseen by the AICPA. It requires CPAs to have an external review of their accounting and auditing practices once every three years to determine whether a firm has and complies with suitable quality control policies and procedures. Specifically, it focuses on the following:

- Implementation of independence requirements;
- Assignment of personnel;
- Provisions for consultation when technical assistance is required;
- Supervision and performance of accounting and auditing engagements;
- Hiring practices;
- Continuing professional education programs;
- Promotion of personnel;
- Obtaining and retaining clients; and
- Internal inspection of the firm's work.

Interested and licensed CPAs, who have demonstrated that they possess current knowledge of applicable professional standards, are duly qualified and appointed from members of the AICPA as reviewers. Reviewers independently select a sample of a firm's engagements to assess the firm's work. At the conclusion of the peer review, the reviewer reports back to the firm on its findings, makes suggestions for improvements where necessary, and provides the outcome of the review to the state CPA society administering the firm's review. If a review uncovers deficiencies, the state CPA society prescribes various corrective actions the firm must take or assigns monitoring procedures to ensure the firm adheres to the profession's standards. This allows the AICPA to consistently receive updates on the quality of its members' work and the performance of CPA firms.

The Peer Review Program has three levels of review based upon the attest services performed by the reviewed CPA firm which consists of: (1) System Review; (2) Engagement Review; and (3) Report Review.

System Reviews are required for CPA firms that perform audit engagements under the Statements on Auditing Standards ("SASs"), Government Auditing Standards ("Yellow Book") and/or examinations of prospective financial information under the Statements on Standards for Attestation Engagements ("SSAEs"), which evaluates their system of quality control. These reviews are system and compliance oriented with the current objectives of evaluating that:

- The reviewed firm's system of quality control for its accounting and auditing practice has been designed to meet the requirements of the Quality Control Standards established by the AICPA; and
- The reviewed firm's quality control policies and procedures are being established and complied with to provide the firm with reasonable assurance of conformity with professional standards.

Engagement Reviews are required for CPA firms that perform compilations (except as noted below) or review services under Statements on Standards for Accounting and Review Services ("SSARS") and/or services under the SSAEs not included in System Reviews. The objectives of an Engagement Review are to provide the peer reviewer with a reasonable basis for expressing limited assurance that:

- The financial statements or information, and the related accountant's report on accounting, review, and attestation engagements submitted for review conform in all material respects with the requirements of professional standards; and
- The reviewed firm's documentation conforms with the requirements of SSARS and the SSAEs applicable to those engagements in all material respects.

Report Reviews are required for CPA firms that only perform compilation engagements under SSARS where the firm has compiled financial statements that omit substantially all disclosures. The objective of a Report Review is to enable the reviewed firm to improve the overall quality of its compilations that omit substantially all disclosures. The reviewer provides comments and recommendations based on whether the submitted financial statements and related accountant's reports conform to the requirements of professional standards in all material respects.

Summary of Benefits

Participation in the AICPA Peer Review Program provides CPAs with the opportunity to improve their firm's policies and procedures, and enhance the quality of the financial statements presented to their clients. This may be as simple as identifying possible firm deficiencies, inefficiencies, or opportunities to better serve clients. Whatever the case, clients benefit because CPA services become more appropriate for their needs and responsive to the changing business environment. Moreover, clients can be assured that their CPA firm

measures up to the profession's standards of quality and professionalism. Peer review also keeps CPAs current on the latest standards and trends in accounting and auditing. This translates into more knowledgeable advice for those who rely on CPA services. Peer review offers the assurance that CPAs are committed to satisfying the professions requirements and expectations of the public.¹

Frequency of Review

Firms (and individuals) enrolled in the AICPA Peer Review Program are required to have a peer review, once every three years, of their accounting and auditing practice related to non-Security and Exchange Commission (SEC) issuers covering a one-year period. The peer review is conducted by an independent evaluator, known as a peer reviewer. The AICPA oversees the program, and the review is administered by an entity approved by the AICPA to perform that role.²

Accordingly, mandatory peer review will provide a level of assurance that financial statements prepared and issued by CPAs in the State of Hawaii are uniformly prepared in accordance with established professional standards. As noted above, mandatory peer review is not something new since member firms of the AICPA who prepare and issue financial statements have been required to participate in the AICPA Peer Review Program since 1988. The current national debate is not whether peer review should be mandatory (since 42 states have adopted mandatory peer review), but rather whether peer review findings should be made public to protect the public's interest. Essentially, have the Peer Review Report made public similar to the Inspection Reports issued by the Public Company Oversight Accounting Board ("PCAOB").

For the above reasons, we urge you to support mandatory peer review for CPAs, who perform attest services. Additionally, if possible, we suggest modifications to the measure as follows:

- §466-13(a), should be modified to read, "Every firm, including the Hawaii offices and Hawaii engagements of foreign or multistate firms, required to obtain a firm permit to practice pursuant to section 466-7 and provide attest services shall participate in a peer review process described in this section, and certify the firm's participation at the time of the renewal of the firm's permit to practice under section 466-7 as prescribed by the board."

Rationale for Modification – Modification necessary since the phrase "...shall undergo peer review on the firm's attest work at the time of the renewal of the firm's permit to practice under section 466-7" does not take into account that firms which currently participate in the prevailing AICPA Peer Review Program are peer reviewed only once in every three years (see discussion above, "Frequency of Review"). The measure if not modified would appear to require that a firm be peer reviewed every two years (section 466-7 provides for a firm's permit renewal every two years), also the measure literally suggest that the required firms are to undergo a peer review at the time they are applying for their permit renewal which is impractical and probably not intended. Additionally with the deletion of "shall undergo peer review on the firm's attest work," clarification is required that only firms which provide "attest" services are required to be peer reviewed.

¹ See. The AICPA Peer Review Program at www.skdocpa.com/pdf/PeerReviewProcess.pdf, and Cascade Peer Review at <http://www.macpa.org/content/Public/Documents/PDF/PRBrief.pdf>.

² See. <http://www.aicpa.org/prsummary/prsummary.pdf>.

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Please feel free to contact me, if I can be of any further assistance. Thank you for the opportunity to provide testimony on this measure.

Respectfully submitted,
Horwath Kam & Company, An Accountancy Corporation



Howard K. Kam, Jr.
Its Managing Director



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March 8, 2010

VIA EMAIL

Committee on Consumer Protection & Commerce
Hawaii State Capitol, Room 316
415 South Beretania Street
Honolulu, HI 96813

Re: S.B. NO. 2501 S.D. 1, Date & Time of Hearing: Wednesday, March 10, 2010 at 2:00 PM

Dear Chair Herkes, Vice Chair Wakai and Committee Members:

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Additionally, we are one of the few remaining states that have yet to enact a mandatory peer review requirement for CPA's (42 states have a mandatory peer review requirement).

For these reasons, I urge you to support mandatory peer review for CPAs as it will provide the public with an improved level of assurance that CPA-prepared financial statements are issued pursuant to uniform professional standards, and most importantly fulfill the public's expectations and reliance thereon.

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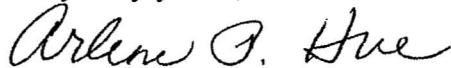
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Very truly yours,



VP/Secretary



PACIFIC GUARDIAN LIFE

DOUGLAS M. GOTO
CPA, CLU, ChFC
Executive Vice President

March 8, 2010

Committee on Consumer Protection & Commerce
Hawaii State Capitol, Room 316
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Rationale for Modification – Modification is necessary since the phrase “...shall undergo peer review on the firm’s attest work at the time of the renewal of the firm’s permit to practice under section 466-7” does not take into account that firms which currently participate in the prevailing AICPA Peer Review Program are peer reviewed only once in every three years. The measure if not modified would appear to require that a firm be peer reviewed every two years (section 466-7 provides for a firm’s permit renewal every two years), also the measure literally suggest that the required firms undergo a peer review at the time they applying for their permit renewal which is impractical and probably not intended. Additionally with the deletion of “shall undergo peer review on the firm’s attest work,” clarification is required that only firms which provide “attest” services are required to be peer reviewed.

- §466-13(e), should be modified to read, “Neither the proceedings nor the records of the peer review process shall be subject to discovery. Except as hereinafter provided, no person in attendance at the proceedings shall be required to testify as to what transpired at the meeting; provided that the statements made by any person in attendance at the meeting who is a party to an action or proceeding the subject matter of which was reviewed at the meeting, shall be subject to discovery.”

Rationale for Modification – Modification necessary since this subsection in the measure makes reference in the second sentence to “committee” which was deleted in SB 2501, and in the first sentence of the subsection.

For the above reasons, I urge you to support mandatory peer review for CPAs, who perform attest services, to include the suggested modifications.

Very truly yours,





March 8, 2010

VIA EMAIL: repwakai@Capitol.hawaii.gov

Committee on Consumer Protection & Commerce
Hawaii State Capitol, Room 316
415 South Beretania Street
Honolulu, HI 96813

Re: **S.B. NO. 2501 S.D. 1, Date & Time of Hearing: Wednesday, March 10, 2010 at 2:00 PM**

Dear Chair Herkes, Vice Chair Wakai and Committee Members:

I strongly support the mandatory peer review requirement for CPAs. I support mandatory peer review in order to provide a level of assurance that financial statements prepared and issued by CPAs in the State of Hawaii are uniformly prepared in accordance with established professional standards.

The benefits of mandatory peer review program will: (1) improve the quality of the financial statements being prepared and issued by CPAs in the State of Hawaii; (2) enhance the creditability and reliability of financial statements prepared and issued by CPAs in the State of Hawaii; (3) most importantly, provide a greater level of confidence to the public and users of such financial statements, who currently, but incorrectly, believe that all CPAs participate in a peer review process or practice monitoring program to ensure that those statements comply with established professional standards.

Additionally, we are one of the few remaining states that have yet to enact a mandatory peer review requirement for CPA's (42 states have a mandatory peer review requirement).

For these reasons, I urge you to support mandatory peer review for CPAs as it will provide the public with an improved level of assurance that CPA-prepared financial statements are issued pursuant to uniform professional standards, and most importantly fulfill the public's expectations and reliance thereon.

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- §466-13(a), should be modified to read, "Every firm, including the Hawaii offices and Hawaii engagements of foreign or multistate firms, required to obtain a firm permit to practice pursuant to section 466-7 and provide attest services shall participate in a peer review process described in this section, and certify as to the firm's participation at the time of the renewal of the firm's permit to practice under section 466-7 as prescribed by the board."

MARCH 8, 2010

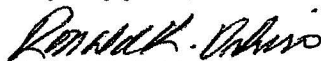
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Very truly yours,



Ronald K. Oshiro
President

N I W A O
&
R O B E R T S

Certified Public Accountants, A Professional Corporation

Before the Committee on Consumer Protection & Commerce

Wednesday, March 10, 2010 at 2:00 p.m.

Conference Room 325

Re: Support for SB2501, SD1

Relating to Public Accountancy

Marilyn M. Niwao, J.D., CPA

Chair Herkes, Vice Chair Wakai, and committee members:

I am a licensed certified public accountant (CPA) and attorney in the State of Hawaii. I am also a principal of Niwao & Roberts, CPAs, a P.C., a CPA firm on Maui. Our firm has voluntarily obtained on-site peer reviews from 1990, when it was first required for membership in the AICPA.

I support measures to improve the quality of the accounting profession in Hawaii. The Senate Committee report on SD1 of SB2501 states that the intent of the amended bill is to adopt a mandatory peer review process that is helpful to accountancy firms, rather than punitive to firms. In addition, SB2501, SD1, among other provisions, provides necessary definitions, **requires all firms practicing public accountancy in Hawaii to undergo peer review, including the Hawaii offices and Hawaii engagements of foreign or multistate firms**, requires an appeal process for a firm to appeal peer review findings and conclusions, and allows for an extension of time to firms for compliance with the peer review requirement in hardship situations.

Some minor technical corrections that should be made to SD1 of SB2501 as follows:

1. In the definition of "attest", Section 466-3, paragraph (4) should be amended to correct the office which issues government auditing standards. The section should read:
 - (4) Any engagement to be performed in accordance with the government auditing standards, also known as the Yellow Book, issued by the United States General Accounting Office United States Government Accountability Office;

2. The definition of "firm" should be amended to read:

""Firm" means a sole proprietorship, a corporation, [or] a partnership[-], a limited liability corporation company, or a limited liability partnership."

3. "§466-13 (c) and (d) should also specify that the board authorizes an entity to conduct peer review, not contract with that entity, and clarify membership requirements for entities. Accordingly, the sections should read (in part):

(c) The board may ~~contract with~~ authorize a third party entity to provide the peer review required under subsection (a); provided that the ~~contracted~~ entity shall not require firms or the firms' owners or employees to become members of the entity in order to participate in peer review and shall charge the same rate for peer review services to both members and nonmembers. If the board chooses to ~~contract with~~ authorize a third party to provide peer reviews, the third party shall be held to the highest standards of professionalism, quality, and ethics.

(d) The board shall adopt rules pursuant to chapter 91 to establish requirements and procedures for the qualification of ~~organizations~~ entities to conduct peer reviews and for the performance of peer reviews by these ~~organizations~~ entities.

The rules shall include:

- (1) A process for the conduct of peer review to be followed by the board and by a third party ~~contracted~~ authorized entity; ...

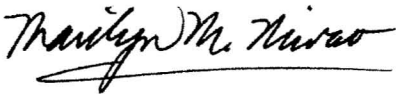
Note that the Senate Committee specified that all firms, including the Hawaii offices and Hawaii engagements of foreign or multistate firms, shall undergo peer review on the firm's attest work. There shall be no exceptions from peer review for any firms performing attest work in Hawaii. This means that if a foreign or multi-state CPA firm performs attest work in Hawaii, the Hawaii peer review requirement cannot be met by having a mainland office of the foreign or multi-state CPA firm peer reviewed.

Currently, Hawaii offices of the large international CPA firms are oftentimes not peer reviewed because they are not picked in the sample of offices to be peer reviewed because of their relatively small size compared to other mainland offices. However, in these cases, the firm peer review should not be utilized to meet the Hawaii peer review requirement. Otherwise, it is like saying that the health inspections of a mainland McDonald's restaurant in New York should be utilized to exempt a Hawaii McDonald's restaurant from any Hawaii health inspection requirement because both McDonald's restaurants are held to the same standards by the franchisor.

Our firm supports SB2501, SD1 as long as there are no substantive changes to the language of the bill, and all firms performing attest work in Hawaii must undergo mandatory peer review, with no exceptions.

Thank you for your consideration of the above.

Respectfully submitted,

A handwritten signature in cursive script that reads "Marilyn M. Niwao". The signature is written in black ink and is positioned above the printed name.

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



Taketa, Iwata, Hara & Associates, LLC

Certified Public Accountants & Consultants

101 Aupuni Street, Suite 139

Hilo, Hawaii 96720-4260

Before the Committee on Commerce Protection & Commerce

Wednesday, March 10, 2010 at 2:00 p.m.

Conference Room 325

State Capitol

Re: Support for SB 2501, SD1

Relating to Public Accountancy

Testimony of Gregg M. Taketa

Chair Herkes, Vice Chair Wakai and committee members:

I respectfully ask that you vote YES on SB 2501, SD1. I am a partner in the CPA firm of Taketa, Iwata, Hara & Associates, LLC in Hilo and the immediate past State President of the Hawaii Association of Public Accountants (HAPA). I am also a member of the Hawaii Society of Certified Public Accountants (HSCPA) and the American Institute of Certified Public Accountants (AICPA).

Our firm has been a member of the Private Companies Practice Section (PCPS) of the AICPA since 1989 and we completed our first on-site peer review (now known as a system review) in 1991. I am a firm believer in the benefits of peer reviews as it provides a healthy exchange of information and ideas between peer reviewer and the firm with the objective of continued improvement in attest work.

I support SB 2501, SD1 because it addresses the main concerns that I mentioned in previous testimony:

- SB 2501, SD1 states that the peer review process shall be for educational or remedial rather than punitive purposes. This setting will foster a relationship between peer reviewer and CPA firm that will encourage the exchange of information and ideas necessary for the continued improvement of professional services.
- SB 2501, SD1 provides due process provisions for firms that may lose their right to practice due to the peer review process.
- SB 2501, SD1 provides a level playing field as all CPA firms performing attest work in Hawaii would be required to participate in the peer review process administered by the state board of public accountancy.
- SB 2501, SD1 provides a definition of attest work.

I urge the committee to support SB 2501, SD1 for these reasons.

Thank you for this opportunity to testify.

Respectfully submitted,


Gregg M. Taketa, CPA

Gregg M. Taketa, CPA • Brian M. Iwata, CPA • Janet W. Hara, CPA

Tel (808) 935-5404 Fax (808) 969-1499 E-mail: info@tihcpa.com Website: www.tihcpa.com

Napu'u Water Inc.

P.O. Box 4525
Kailua-Kona, Hawaii 96745

March 8, 2010

VIA EMAIL: CPCtestimonyi@Capitol.hawaii.gov

Committee on Consumer Protection & Commerce
Hawaii State Capitol, Room 316
415 South Beretania Street
Honolulu, HI 96813

Re: S.B. NO. 2501 S.D. 1, Date & Time of Hearing: Wednesday, March 10, 2010 at 2:00 PM

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For these reasons, I urge you to support mandatory peer review for CPAs as it will provide the public with an improved level of assurance that CPA-prepared financial statements are issued pursuant to uniform professional standards, and most importantly fulfill the public's expectations and reliance thereon.

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For the above reasons, I urge you to support mandatory peer review for CPAs, who perform attest services, to include the suggested modifications.

Very truly yours,



Mary Metcalf
Treasurer, Napu'u Water Inc.
Tel: 808-325-2314

Before the House Committee on
Consumer Protection & Commerce

Wednesday, March 10, 2010

2:00 p.m.

Conference Room 325

**In qualified support of S.B. 2501, S.D. 1
Relating to Public Accountancy**

Chair Herkes, Vice Chair Wakai, and Committee members:

My name is Terri Fujii and I am a CPA licensed in the State of Hawaii. I am also the Office Managing Partner of Ernst & Young LLP's Honolulu office.

Thank you for the opportunity to provide testimony in qualified **support** of S.B. 2501, S.D. 1, relating to mandatory peer review for firms of Certified Public Accountants.

Current law provides for a quality review committee to review the work of CPA firms. However, because peer review is not mandatory in Hawaii, this provision does not result in a review of all CPAs performing audit or attest services in Hawaii. S.B. 2501, S.D. 1 would significantly strengthen the Hawaii peer review regime by requiring that a CPA firm performing audit or other attest services in Hawaii be peer reviewed as a condition on the renewal of that CPA firm's Hawaii permit to practice. The bill would grant the Hawaii Board of Public Accountancy the authority to regulate the peer review process.

I believe that it is important for Hawaii to have a mandatory peer review system. Peer review strengthens the quality of the audit and attest services provided, protecting those who purchase such services and those who use the financial statements resulting from such services. Peer review also provides for continuous quality improvements as CPAs make changes to their processes to improve the quality of their work.

As I discuss in more detail below, many firms, including Ernst & Young, are already subject to peer review so requiring peer review in Hawaii will not significantly change the status quo for these firms. Our experience has been that peer review is such a significant means of promoting high quality professional services that expanding peer reviews to all firms providing attest services in Hawaii best promotes the public interest.

I would like to address three points. First, I would like to put the peer review process in some context. Second, I would like to explain the peer review process from the perspective of a CPA firm that performs audits of SEC issuers in more than one U.S. state. Third, I would like to discuss why the current version of the bill presents significant implementation challenges that should be addressed before passage.

Background on Peer Reviews

There is a broad, national consensus among the various state boards of accountancy and the representatives of the profession that periodic peer review is an important means of maintaining and improving the quality of the professional services performed by CPA firms and thus, protecting the public.

It is therefore no surprise that peer reviews are a condition of membership in the American Institute of Certified Public Accountants (AICPA), and that nearly all U.S. states have a separate mandate that CPA firms receive periodic peer reviews.¹ That is, each state's mandate is independent of the peer review requirement that is a condition of AICPA membership. In practice, however, states coordinate their review requirements with the AICPA's review, so that CPA firms practicing in more than one state are not burdened by unnecessarily duplicative review programs.

Now that audits performed for SEC issuers are subject to inspections by the Public Company Accounting Oversight Board (PCAOB), peer reviews focus on the nonissuer accounting and auditing practice of licensed CPA firms. Peer review is the key method of external quality control review for these services.

While CPA firms are required to have internal quality control systems, external regulatory reviews such as peer reviews help to determine whether a firm's system of quality control is designed and being complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. CPA firms learn from the peer reviews that they undergo, and those lessons are a key input into firms' continual efforts to improve the quality of the professional services they render to their clients.

Because peer reviews promote quality, the chief beneficiaries of S.B. 2501, S.D. 1 are Hawaii consumers of accounting services.

Peer Review Under the AICPA

Over 30,000 CPA firms participate in the AICPA peer review program, or "PRP." As described above, the various states with mandatory peer reviews have determined that participation in the PRP is sufficient to meet each state's specific requirement. The peer reviews conducted under

¹ Specifically, 45 of the 55 U.S. states and territories that license CPAs have mandatory peer review. That number will grow to 47 in 2012, when Illinois and New York requirements take effect.

the PRP are performed pursuant to the *AICPA Standards for Performing and Reporting on Peer Reviews*.²

Firms participating in the PRP are required to have a peer review once every three years of their non-issuer accounting and auditing practice. This review covers a specified one-year period.

Ernst & Young's peer review is administered through the AICPA's National Peer Review Committee ("NPRC"). Firms are required to have their peer review administered by the NPRC if they are required to be registered with *and* inspected by the PCAOB or if they perform audits of non-SEC issuers pursuant to the standards of the PCAOB. (Other peer reviews are administered by state CPA societies.)

AICPA peer reviews are scoped based on the level of assurance services provided by the CPA firm. Firms providing audits pursuant to the rules of the PCAOB, the Statements on Auditing Standards, or Government Auditing Standards, or firms providing examinations of prospective financial information under the Statement on Standards for Attestation Engagements, receive "system reviews." (Firms providing certain other attest services may receive "engagement reviews.")

The system review is a process designed to determine whether the firm's system of quality control for its accounting and auditing practice is designed and complied with so as to provide the firm with reasonable assurance that it is performing and reporting in conformity with applicable professional standards in all material respects.

In a system review, the reviewer will study and evaluate a CPA firm's quality control policies and procedures that were in effect during the peer review year. This includes interviewing firm personnel and examining administrative files. 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 and significant risk areas where the possibility is the greatest that the engagements may not have been performed and/or reported on in accordance with professional standards in all material respects.

Because the system review is focused on high-risk engagements, not every office of a large firm will be tested under the peer review process. However, the peer review is scoped so that the reviewer obtains an understanding of the firm's system of quality control for its accounting and auditing practice, which is applied across all of the firm's offices. In addition, the reviewer must visit a sufficient number of the firm's practice offices so as to obtain "a reasonable basis for its conclusions regarding whether the reviewed firm's quality control policies and procedures are adequately communicated throughout the firm and whether its system of quality control was complied with during the year under review based on a reasonable cross section of the reviewed

² The AICPA Standards for Performing and Reporting on Peer Reviews ("Peer Review Standards"), are available at http://www.aicpa.org/download/practmon/2009_stds.pdf.

firm's accounting and auditing practice, with greater emphasis on those offices with higher assessed levels of peer review risk." Peer Review Standards, at § 1000.56.

Therefore, it is just not accurate to state that certain CPA firms make a decision to exclude their Hawaii offices from consideration during a peer review. If the independent peer reviewer determines that a Hawaii office of a CPA firm presents a higher risk of a quality control failure, then engagements in the Hawaii office or elements of the system of quality control contributing to the higher risk will be subjected to peer review procedures.

A requirement that the Hawaii office be inspected during a peer review would be contrary to the risk-based AICPA PRP process and would impose extra compliance burdens on CPA firms which are subject to peer review in multiple jurisdictions. Currently, no states require that an AICPA peer review specifically address one or more of a firm's in-state offices as a condition of satisfying the state's peer review program. Such a requirement should not be a condition of peer review in Hawaii.

Implementation Challenges Under the Current Bill

Proposed Section 466-13(a) of SB 2501, S.D. 1 states that "Every firm, including the Hawaii offices and Hawaii engagements of foreign or multistate firms, required to obtain a firm permit to practice pursuant to section 466-7 shall undergo peer review on the firm's attest work at the time of the renewal of the firm's permit to practice under section 466-7."

A requirement mandating peer review of in-state offices would be unworkable. But the Senate bill not only imposes such a burden, it also states that "Hawaii engagements" of foreign or multistate firms must be reviewed as well. While we believe that Hawaii offices and engagements should be subject to peer review—in that they should be risk-tested by the independent peer reviewer and reviewed, if appropriate—a requirement to peer review each such office and/or engagement is unprecedented in any external quality review program anywhere in the world.

Significantly, a separate burden would be felt by the Board of Accountancy, which would be required to construct its own peer review program to comply with the Hawaii law, and then administer that program without the assistance of established peer review administering organizations.

For these reasons, we believe that this provision should be revised before passage by the House.

Conclusion

We believe that peer review should be mandatory in Hawaii to protect the consumers. Every firm providing audit and attest services should be subject to peer review. Were S.B. 2501 to pass, we believe that the Hawaii Board of Public Accountancy should use the AICPA PRP outlined above, either on its own or as supplemented by the PCAOB inspection, under rules promulgated pursuant to revised Section 466-13(b)(1), as satisfying the Hawaii peer review requirement. Working with the AICPA PRP is the most effective and efficient way to implement a peer review program in Hawaii, as it will permit the Board to focus its resources on managing the peer review process for those CPA firms which are not members of the AICPA. The State

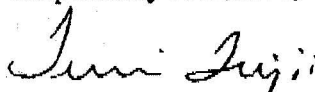
Board will also not have to reinvent the wheel and develop a peer review program as there is a well established program in place. The ACIPA PRP is used by all other licensing jurisdictions requiring peer review and has been in existence for over 20 years. This harmonization, which has worked so well in every other state with a mandatory peer review program, should not be jeopardized by the continued inclusion of language mandating review of every Hawaii office and Hawaii engagement of foreign or multistate firms.

If the bill is passed and signed into law, its impact on firms that are not currently peer reviewed could be mitigated by the Board's authority under Section 466-13(b) of the bill to set the standards and requirements for peer reviews. For example, the Board could provide extensions of time, as needed, to these firms for preparing for the review and for responding to the findings.

The extensive experience of firms already subject to peer reviews has been that peer reviews are critical to consumer protection by ensuring that firms maintain and improve their quality control systems. Those who rely on the work performed by CPA firms should have confidence in that work, and peer reviews both promote and help to justify that confidence. The benefits of a well-managed peer review program to the public far outweigh the burdens placed on CPA firms to undergo peer reviews.

Therefore, I **support** S.B. 2501, S.D. 1, albeit with the qualification discussed above, and thank the Chair, the Vice Chair, and the rest of the Committee's members for consideration of the above.

Respectfully submitted,



Terri Fujii, CPA

From: Butac, Anne [Anne.Butac@twcable.com]
Sent: Monday, March 08, 2010 9:14 AM
To: CPCtestimony
Subject: Support of SB2501, SB1 (Mandatory Peer Review), Hearing on March 10, 2010

March 8, 2010

VIA EMAIL: repwakai@Capitol.hawaii.gov

Committee on Consumer Protection & Commerce
Hawaii State Capitol, Room 316
415 South Beretania Street
Honolulu, HI 96813

Re: S.B. NO. 2501 S.D. 1, Date & Time of Hearing: Wednesday, March 10, 2010 at 2:00 PM

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Additionally, we are one of the few remaining states that have yet to enact a mandatory peer review requirement for CPA's (42 states have a mandatory peer review requirement).

For these reasons, I urge you to support mandatory peer review for CPAs as it will provide the public with an improved level of assurance that CPA-prepared financial statements are issued pursuant to uniform professional standards, and most importantly fulfill the public's expectations and reliance thereon.

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For the above reasons, I urge you to support mandatory peer review for CPAs, who perform attest services, to include the suggested modifications.

Very truly yours,

Anne Butac

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Ronald I. Heller
700 Bishop Street, Suite 1500
Honolulu, Hawaii 96813

phone 808 523 6000 fax 808 523 6001
rheller@torkildson.com

**TESTIMONY BEFORE THE HOUSE COMMITTEE
ON CONSUMER PROTECTION & COMMERCE**

Re: Senate Bill 2501 SD 1

**Wednesday, March 10, 2010 at 2:00 pm
State Capitol, Conference Room 325**

Chair Herkes, Vice-Chair Wakai, and Members of the Committee:

My name is Ronald Heller. I am a practicing attorney, and also licensed as a Certified Public Accountant. I support the general intent of Senate Bill 2501, but I believe that SD 1 would create problems.

In order to obtain a CPA license in Hawaii, the applicant is required to satisfy strict criteria regarding education and experience, and to pass an examination. Those rules exist to make sure that anyone holding himself or herself out to the public as a CPA is qualified to perform professional services. However, we can and should improve on that protection. The existing rules focus on the initial licensing of a CPA. This bill would add a system for reviewing the quality of a CPA's professional work on a continuing basis throughout his or her career.

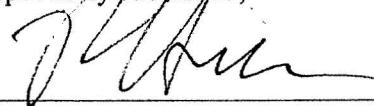
Many CPAs already participate in peer-review programs on a voluntary basis. Unfortunately, some do not. Typically, consumers are not aware of this, and do not know whether they are receiving services from a CPA who has been through a peer review process.

Senate Bill 2501 would tie the peer review process to license renewal, to create a process that lasts throughout a CPA's entire career. This would enhance professionalism and competence, and improve protection for the public.

The current SD 1 version, however, should be clarified. It appears to say that peer review must happen at the time of permit renewal – *i.e.*, every two years. Generally, the standard peer review process requires a peer review to be completed every three years. Therefore, the bill

should say something like “at the time of renewing a permit to practice, the firm shall submit evidence of completion of a peer review within the past three years” – this would not imply that the peer review has to happen on the same schedule as the permit renewal.

Respectfully submitted,



Ronald I. Heller

wakai2-Daniel

From: Yasuo Ogawa [yogawa@corp.lumiinternational.com]
Sent: Monday, March 08, 2010 8:46 AM
To: CPCtestimony
Cc: Rep. Glenn Wakai
Subject: Re: S.B. NO. 2501 S.D. 1
Attachments: image001.jpg

March 8, 2010

VIA EMAIL: repwakai@Capitol.hawaii.gov

Committee on Consumer Protection & Commerce
Hawaii State Capitol, Room 316
415 South Beretania Street
Honolulu, HI 96813

Re: S.B. NO. 2501 S.D. 1, Date & Time of Hearing: Wednesday, March 10, 2010 at 2:00 PM

Dear Chair Herkes, Vice Chair Wakai and Committee Members:

I strongly support the mandatory peer review requirement for CPAs. I support mandatory peer review in order to provide a level of assurance that financial statements prepared and issued by CPAs in the State of Hawaii are uniformly prepared in accordance with established professional standards.

The benefits of mandatory peer review program will: (1) improve the quality of the financial statements being prepared and issued by CPAs in the State of Hawaii; (2) enhance the creditability and reliability of financial statements prepared and issued by CPAs in the State of Hawaii; (3) most importantly, provide a greater level of confidence to the public and users of such financial statements, who currently, but incorrectly, believe that all CPAs participate in a peer review process or practice monitoring program to ensure that those statements comply with established professional standards.

Additionally, we are one of the few remaining states that have yet to enact a mandatory peer review requirement for CPA's (42 states have a mandatory peer review requirement).

For these reasons, I urge you to support mandatory peer review for CPAs as it will provide the public with an improved level of assurance that CPA-prepared financial statements are issued pursuant to uniform professional standards, and most importantly fulfill the public's expectations and reliance thereon.

Additionally, I suggest that the Committee consider modifying the measure as follows:

- §466-13(a), should be modified to read, "Every firm, including the Hawaii offices and Hawaii engagements of foreign or multistate firms, required to obtain a firm permit to practice pursuant to section 466-7 and provide attest services shall participate in a peer review process described in this section, and certify as to the firm's participation at the time of the renewal of the firm's permit to practice under section 466-7 as prescribed by the board."

Rationale for Modification – *Modification is necessary since the phrase “...shall undergo peer review on the firm’s attest work at the time of the renewal of the firm’s permit to practice under section 466-7” does not take into account that firms which currently participate in the prevailing AICPA Peer Review Program are peer reviewed only once in every three years. The measure if not modified would appear to require that a firm be peer reviewed every two years (section 466-7 provides for a firm’s permit renewal every two years), also the measure literally suggest that the required firms undergo a peer review at the time they applying for their permit renewal which is impractical and probably not intended. Additionally with the deletion of “shall undergo peer review on the firm’s attest work,” clarification is required that only firms which provide “attest” services are required to be peer reviewed.*

- §466-13(e), should be modified to read, “Neither the proceedings nor the records of the peer review process shall be subject to discovery. Except as hereinafter provided, no person in attendance at the proceedings shall be required to testify as to what transpired at the meeting; provided that the statements made by any person in attendance at the meeting who is a party to an action or proceeding the subject matter of which was reviewed at the meeting, shall be subject to discovery.”

Rationale for Modification – *Modification necessary since this subsection in the measure makes reference in the second sentence to “committee” which was deleted in SB 2501, and in the first sentence of the subsection.*

For the above reasons, I urge you to support mandatory peer review for CPAs, who perform attest services, to include the suggested modifications.

Best Regards,

Yasuo Ogawa
President
Cowabunga! Computers

Check out my online article every month on [tips and advice](http://www.aroundhawaii.com)
www.aroundhawaii.com

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Natalie J. Iwasa, CPA, Inc.
1331 Lunalilo Home Road
Honolulu, HI 96825
808-395-3233

DATE: March 9, 2010

TO: Representative Herkes, Chair
Representative Wakai, Vice Chair
Committee on Consumer Protection & Commerce

HEARING DATE: Wednesday, March 10, 2010, 2 p.m.

SUBJECT: SB2501, SD1 Relating to Public Accountancy - **oppose as currently written**

Aloha Chair, Vice Chair and Members of the Committee,

This bill requires mandatory peer review for CPAs who perform attest services in order to renew a permit to practice public accounting in the state of Hawaii. While on the face of it this would appear to be a good thing to do to protect the public, I believe this bill, as written, will increase the cost of doing business for public accounting firms and may decrease competition for attest services.

My firm is currently voluntarily peer reviewed every three years. If this bill were to become law as is, it appears I would be required to have a peer review every other year when my firm's permit is renewed. Since I only perform a handful of attest engagements annually, I would have to ask myself whether it makes economic sense to continue offering those services in light of the additional peer review costs due to their increased frequency.

In addition, according to page 4, lines 9 and 10, the board may contract with a third party entity to *provide* the peer reviews. Given that peer review is defined on page 2, lines 18 - 20 as being done "by a person or persons who hold permits to practice public accountancy under section 466-7 and who are not affiliated with the firm," it appears there is an error in on page 4. Currently peer reviews are done by trained peer reviewers and administered by the Hawaii Society of CPAs. Consideration should therefore be given to change "provide" to "*administer*" in line 10 of page 4.

I respectfully ask that you vote in opposition to this bill or amend it for the two items noted above.

Sincerely,



Natalie Iwasa, CPA