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March 9, 2010

The Honorable Representative Robert N. Herkes, Chair
The Honorable Representative Glenn Wakai, Vice Chair
Committee on Commerce, Consumer Protection, and Housing
Hawaii State Capitol
415 South Beretania Street
Honolulu, HI 96813

Re: Support for SB 2501 SD1
Relating to Public Accountancy

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

I support SB 2501 SD1 because it addresses my concerns via the statutes about the peer review process whether it is punitive or educational, the additional cost to undergo the peer review process, the process will apply equally to all CPAs operating in Hawaii and there will be due process rights under the law.

I ask your committee to pass this bill without making any substantive changes.

Respectfully submitted,



Brian M. Iwata, CPA

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**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.

As stated in the Board's testimony submitted earlier to this Committee, the Board met this morning to discuss the significant amendments to this bill that were proposed by the Senate Committee on Commerce and Consumer Protection in its Senate Draft 1. The Board respectfully provides the following comments for the Committee's consideration:

- Section 2 of the bill amends HRS section 466-3 by adding two new definitions to the terms "attest" and "peer review", and amending the definition of the term "firm".

- The Board believes that the term “attest” is too narrowly defined and may limit the Board’s ability to recognize other types of attest work or other standards that may need to be acknowledged in the future.
- The Board also believes the definition of the term “peer review” should be expanded to include clear guidelines on the qualifications of the individual who conducts a peer review. The Board has prepared amendments to the definitions of these two terms for the Committee’s review and consideration.
- In addition, the Board recommends that the definition of the term “firm” be amended to correct “limited liability corporation” to “limited liability company” and to also include the language, “or any other form of business entity”.
- Section 3 of the bill amends HRS section 466-13.
 - Subpart (a): It is unclear to the Board whether the inclusion of Hawaii offices and Hawaii engagements of foreign or multistate firms in the peer review requirement should be mandated. If passed, Hawaii would be the only state in the nation that would require a local office of a national office to be peer reviewed in order to renew that firm’s permit to practice. ~~The Board~~
~~requests that the language including the Hawaii offices and~~

~~the requirement that the peer review process be for educational or remedial and not punitive purposes~~

~~and that this sentence be amended to allow the Board to act expeditiously against a licensee in such a circumstance of egregious violations.~~

- Subpart (b): Tying peer review to the renewal of a firm permit to practice in terms of frequency appears to be inconsistent with the two-year renewal period for a firm permit to practice. The AICPA peer review programs and other long-standing peer review programs are conducted on a triennial basis. Requiring firms to expend the effort and financial resources to have a peer review conducted every two years would be a hardship on many Hawaii firms.

In addition, the requirement that the “peer review process be for educational or remedial and not punitive purposes” would prevent the Board from acting in the best interest of the public in the case where there is an egregious violation of the laws and rules. The Board requests that the term “remedial” be defined and that this sentence be amended to allow the Board to act expeditiously against a licensee in such a circumstance of egregious violations.

- Subpart (d)(4): Allowing for an appeal process for a firm again points to the inconsistency in the characterization of a peer review to be “not punitive” in purpose.

- Subpart (e): References to the quality review or peer review “committee” should be stricken.
- Section 7 ties the effective date of this measure to the renewal schedule for a firm permit to practice, which, again, is of concern to the Board.

Thank you for the opportunity to provide testimony on Senate Bill No. 2501, S.D. 1. I will be happy to answer any questions you may have.

“Attest” means and includes:

- (1) An audit or other similar engagement;
- (2) A review of a financial statement;
- (3) An examination of prospective financial information;
- (4) Any engagement to be performed in accordance with the standards of the PCAOB; and
- (5) Any other services specified in the rules of the Board.

The standards to be followed when performing attest services shall be specified in the rules of the Board; provided that such standards shall, at a minimum, include those developed for general application by recognized national accountancy organizations, such as the AICPA and the PCAOB.

“Peer review” means a study, appraisal, or review of one or more aspects of the professional work of a license holder or CPA firm that issues attest or compilation reports, by a person or persons who currently hold certificates or licenses, are CPAs, and are not affiliated with the license holder or CPA firm being studied, appraised, or reviewed.