

Testimony for HB2169 on 2/13/2012 2:15:00 PM

mailinglist@capitol.hawaii.gov [mailinglist@capitol.hawaii.gov]

Sent: Sunday, February 12, 2012 7:31 PM

To: CPCtestimony

Cc: laurie@mcghawaii.com

Testimony for CPC 2/13/2012 2:15:00 PM HB2169

Conference room: 325
Testifier position: Support
Testifier will be present: No
Submitted by: Laurie M. Choy
Organization: Individual
E-mail: laurie@mcghawaii.com
Submitted on: 2/12/2012

Comments:

I have worked in public accounting for over thirty years. Peer Review for all firms is important to enhance the quality of work which the public relies on. The art of accounting is dependant on people, more than the company they work for. Therefore it is important that each office is subject to reviews and inspections on a periodic basis. Local firms have been peer review for two decades. The firm I work for has just completed its 9th peer review. It is only fair that all firms are required to go through these reviews, without exception.

Thank you for allowing me to share my comments.

Rodney M. Harano, CPA
700 Bishop Street, Suite 1040
Honolulu, Hawaii 96813

Before the House Committee on Consumer Protection & Commerce

February 13, 2012
2:15 p.m.
Conference Room 325
State Capitol
415 South Beretania Street

**In Support of HB 2169, HD1 with
With Additional Proposed Amendments**

Chair Herkes, Vice Chair Yamane, and Committee Members:

My name is Rodney Harano and I am a partner in the local firm, CW Associates, CPAs. I am an active peer reviewer since 1995 and chair the Hawaii Society of CPAs' Peer Review Committee. In addition, I had the honor and privilege to serve 6 years ~~2-3 year terms~~ as a member of the national Peer Review Board of the American Institutes of CPAs. This body issues standards and rules on performing and reporting on peer reviews administered by the American Institutes of CPAs and over 46 administering entities across the nation ~~Hawaii Society of CPAs.~~

I previously testified before the House Committee on Economic Revitalization & Business in opposition to House Bill 2169 ***as written*** because the provisions of the original bill, in my opinion, were not implementable, specific §466-F. However, since then, we have been diligently working with and are continuing to work with other representatives of the professional organizations to revise the language in the original bill to make the provisions implementable.

I respectfully ask for your support of House Bill 2169, HD 1, with additional proposed amendments.

~~As previously mentioned, should this bill become law, peer reviewers will cease to perform reviews of Hawaii CPA firms. That would be a disservice to all Hawaii CPA firms.~~

Thank you for the opportunity to testify.

Rodney M. Harano, CPA

Gregg M. Taketa
101 Aupuni Street, Suite 139
Hilo, Hawaii 96720

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

**Monday, February 13, 2012 at 2:15 p.m.
State Capitol, Conference Room 325**

In Support of House Bill 2169, H.D. 1

Chair Herkes, Vice Chair Yamane, and committee members:

I respectfully ask that you vote YES on HB 2169, H.D. 1. I am a CPA and partner in the firm of Taketa, Iwata, Hara & Associates, LLC in Hilo. I am also the past president of the Hawaii Association of Public Accountants and a member of the American Institute of Certified Public Accountants (AICPA) and the Hawaii Society of Certified Public Accountants (HSCPA).

I support HB 2169, H.D. 1 because it establishes a peer review process for public accounting firms that perform attest work in Hawaii.

Act 66 was adopted during the 2010 Legislative Session; requiring peer reviews as a condition of certified public accountancy permits to practice for firms that perform attest work in Hawaii. Since that time, the Hawaii State Board of Public Accountancy has failed to adopt rules to establish the peer review process.

The peer review program's ultimate objective is the protection of the public such as shareholders, creditors, insurance companies, banks and government agencies, who rely on the attest work performed by certified public accounting firms.

HB 2169, H.D. 1 ensures that all public accounting firms that perform attest work in Hawaii will be treated equally and fairly under Chapter 466 of the Hawaii Revised Statutes.

In order to address concerns that the supplemental Hawaii peer review referred to in section 466-F is not implementable under the *AICPA Standards for Performing and Reporting on Peer Reviews*, I request that you consider the following new language for section 466-F to help clarify the supplemental Hawaii peer review process.

"§466-F Supplemental Hawaii peer review. (a) A firm required to obtain a supplemental Hawaii peer review under paragraphs 466-E(b)(1), (2), or (3) shall engage a peer reviewer

who holds a permit to practice public accountancy under section 466-7, and who is further permitted to perform procedures to establish that a firm is in compliance with the "Statement on Standards for Quality Control" established by the American Institute of Certified Public Accountants with respect to its Hawaii offices and engagements or for any engagement performed under a Hawaii permit to practice under section 466-7.

(b) For purposes of this section, a peer reviewer shall use nationally recognized standards for peer reviews or inspections as determined to be applicable by the peer reviewer.

(c) The supplemental Hawaii peer review report to the firm and to the board shall state, at a minimum, the following:

- (1) Name of firm;
- (2) Date the supplemental Hawaii peer review was completed;
- (3) Period that was reviewed;
- (4) Any Hawaii office or offices selected;
- (5) Number and type of Hawaii engagements reviewed;
- (6) Standards used for determining a rating and any limitations that may have been used by the peer reviewer in complying with subsection (a), including the selection of Hawaii engagements and peer review standards by the peer reviewer; provided that the acceptability of the

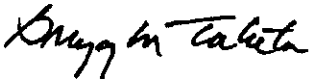
limitations shall be subject to board approval;

and

(7) A rating of "pass", "pass with deficiency", or "fail" from the peer reviewer; provided that if a rating cannot be issued, the peer reviewer shall provide the board with an explanation of why a rating could not be issued.

I urge the committee to support HB 2169, H.D. 1 with the suggested changes to section 466-F described above. Thank you for this opportunity to testify.

Respectfully submitted,



Gregg M. Taketa, CPA

testimony - HB2169, HD1 - Monday, February 13

HSCPA Communication [info@hscpa.org]

Sent: Saturday, February 11, 2012 11:35 AM

To: CPCtestimony

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

**Monday, February 13, 2012 at 2:15 p.m.
State Capitol, Conference Room 325**

**In Support of House Bill 2169, HD1
With Additional Proposed Amendments**

Chair Herkes, Vice Chair Yamane, and Members of the Committee:

My name is Wendell Lee and I am a past president of the Hawaii Society of Certified Public Accountants (HSCPA) and current member of its Board of Directors. On behalf of the HSCPA Board, we support House Bill 2169, HD1 with additional amendments that we would like to propose.

Our initial testimony on HB 2169 was "*in opposition as written*", however, we have been diligently working with the proponents of this measure to clarify language issues – primarily on two areas of concerns. Some of these relate to: (1) 466-F – supplemental review of Hawaii engagements; and (2) provision for an oversight committee.

We ask for your patience as we continue our dialogue and work to resolve these issues.

Respectfully submitted,



Wendell Lee, CPA
On behalf of the HSCPA Board of Directors



**Before the House Committee on Consumer Protection & Commerce
Monday, February 13, 2012 at 2:15 p.m.
Conference Room 325**

Re: Support for HB2169, HD1

Chair Robert N. Herkes, Vice Chair Ryan I. Yamane, and Committee Members:

I am a CPA and practice public accounting in Honolulu, Hawaii under MC Group Hawaii, Inc. I have been in the accounting service industry for over 22 years.

HB2169, HD1 provides that all firms, including the Hawaii offices and Hawaii engagements of foreign or multistate firms, shall undergo peer review every three years on the firm's Hawaii attest work. By subjecting the Hawaii work of out-of-state CPA firms to be peer reviewed, the Hawaii consumer is further protected and the peer review process would be fairly and equitably applied to all CPAs that perform attest work in Hawaii.

I support HB2169, HD1 because it will help protect Hawaii's consumers as well as apply mandatory CPA firm peer review requirements equally and fairly to all firms that practice before the public in Hawaii. I don't believe any firm practicing in the State of Hawaii should be exempt from this requirement regardless of the size of the firm or where it is based.

Thank you for this opportunity to testify.

Respectfully submitted,
MC Group Hawaii, Inc.

Gary Y. Miyashiro, CPA •
President

TO THE HOUSE COMMITTEE ON
CONSUMER PROTECTION AND COMMERCE

TWENTY-SIXTH LEGISLATURE
REGULAR SESSION OF 2012

Monday, February 13, 2012
2:15 p.m.

**TESTIMONY ON HOUSE BILL NO. 2169, H.D. 1, RELATING TO PUBLIC
ACCOUNTANCY.**

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

My name is Steven Oberg and I am a CPA member of the Board of Public Accountancy ("Board"). Thank you for the opportunity to present testimony on behalf of the Board in strong opposition to House Bill No. 2169, H.D. 1, Relating to Public Accountancy.

The purpose of this measure is to establish a peer review process for public accounting firms that engage in attest work.

The Board has consistently supported mandatory peer review of the work of CPA firms that engage in the practice of public accountancy in the State of Hawaii. With the passage of Act 66, SLH 2010 ("the Act"), the Board was charged with the responsibility of promulgating administrative rules to implement a peer review program which would require a CPA firm that engages in Hawaii attest work to have this work reviewed as a condition of renewing its Hawaii firm permit to practice.

Specifically, the Act mandates that every accounting firm, including the Hawaii offices and Hawaii engagements of foreign or multi-state firms, undergo a peer review every three years on the firm's Hawaii attest work, and submit evidence of such a peer review at the time of the renewal of the firm's permit to practice. There were some

concerns with the provisions of the Act, primarily because it required office-specific peer reviews that may not be consistent with current peer review standards.

There is no question that appropriately conducted peer reviews ensure the quality of work prepared by CPAs, and help protect the interests of the public who rely on the financial statements, audits, and similar work prepared by these firms. However, no other state mandates office-specific reviews, and the Board learned that the “gold standard” peer review program of the American Institute of Certified Public Accountants (“AICPA”), that is adopted in its entirety by the overwhelming majority of states and jurisdictions that require peer review of CPA firms as a condition of licensure, could not be modified to ensure that a CPA firm’s attest work, including the Hawaii offices and Hawaii engagements, would be included in the peer review.

Having identified these limitations of the AICPA peer review program, the Board realized that it would not be able to utilize the only existing peer review program that is time-proven and accepted by most, if not all, accountancy boards in states with mandatory peer review. Therefore, to focus its efforts on developing a peer review program that could not be modeled after the AICPA program, the Board established a sub-committee (called the Investigative Committee on Peer Review) solely tasked with drafting administrative rules to establish and implement a peer review program.

In the twenty months since the passage of the Act, this investigative committee has had numerous consultations with the AICPA, the Hawaii Society of Certified Public Accountants, and a number of Hawaii CPAs who possess extensive experience in conducting peer review, and has held fact-finding meetings with stakeholders, which include the Hawaii Association of Public Accountants, the HSCPA, and the Accountants

Coalition, to identify the specific peer review issues that need to be addressed in the rules. The investigative committee explored alternative avenues to create a separately administered and entirely unprecedented peer review program specific to Hawaii and in compliance with the Act.

The findings and recommendations of the investigative committee, including draft administrative rules, have been presented to the full Board at a duly-scheduled meeting of the Board. Copies of these draft administrative rules have been distributed to all stakeholders and interested parties for review and consideration. The Board has also provided these draft rules to this Committee; however, in the event that you have not yet received them, copies are available.

In its review of House Bill No. 2169, H.D. 1, the Board has determined that it is unable to support the measure, and has identified a number of points that may potentially be problematic in its implementation, and respectfully requests that the Committee consider these points in its decision-making.

First and foremost, the Board believes that this proposal is unnecessary because the administrative rules implementing Act 66 have been drafted and are being exposed for comment. The Board believes that these draft rules provide workable regulations to implement the provisions of Act 66 and its unique requirement that Hawaii offices and Hawaii engagements be included in the firm peer review.

Second, the Board believes that House Bill No. 2169, H.D. 1, mandates provisions for a peer review program that are more appropriately within the purview of the Board's administrative rules, as was the Legislature's intent in the enactment of Act 66. By definition, administrative rules are officially promulgated Board regulations that

elaborate on the requirements of a statute through statements of general or particular applicability that implement, interpret, or prescribe that statute, and have the force and effect of law. The Board has reviewed the administrative rules drafted by its investigative committee and has approved the rules to move forward through the rulemaking process to public hearing.

Third, the proposal requires that the Board directly monitor certain aspects of the peer review process that are typically the responsibilities of the administering entity or sponsoring organization of a peer review program. The Board is concerned that these requirements are inappropriately assigned to the Board and cannot be fulfilled with the limitations in financial and staffing resources under which the Board operates. Examples of the duties that the Board would be mandated to handle are overseeing the sponsoring organization, acting as the report acceptance body, accessing the inspection reports from the Public Company Accounting Oversight Board, and overseeing the peer reviewers in determining their qualifications and approving their peer review procedures. The Board understands its role as the overall administrator and director of the peer review program, but believes that the aforementioned duties are clearly within the generally-accepted scope of the program's administering entity or sponsoring organization.

Fourth, the proposal mandates that the supplemental Hawaii-only peer review be performed under the *AICPA Standards for Performing and Reporting on Peer Reviews* ("*AICPA Standards*"). The *AICPA Standards* focus on a firm's auditing and accounting practice as a whole. As such, the review and reporting on the engagements of a single office is not permitted under the *AICPA Standards*. It is the Board's understanding that

Testimony on H.B. 2169, H.D. 1
February 13, 2012
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the AICPA would not permit any of its peer reviewers to perform such a review. In addition, the *AICPA Standards* are copyrighted and the AICPA would not grant permission for its standards to be used in this way. The Board believes that this would make it impossible for a CPA firm to comply with these requirements.

With these objections to the provisions of this measure and with the draft administrative rules moving forward toward adoption, the Board is in strong opposition to this bill, and for these reasons respectfully requests that it be held.

Thank you for the opportunity to testify on House Bill No. 2169, H.D. 1. I will be available to answer any questions you may have.

herkes2 - Marlene

From: Leslie Kaya [lskayacpa@yahoo.com]
Sent: Friday, February 10, 2012 9:33 AM
To: CPCtestimony
Subject: HB2169

Conference Room 325
Re: Support for HB2169, HD1

Chair Robert N. Herkes, Vice Chair Ryan I. Yamane, and Committee Members

I am the owner of a public accounting practice, Leslie S Kaya, CPA, which has been in business on the island of Oahu for 30 years. Upon reviewing the provisions of HB2169, HD1 I wish to convey my support of this piece of legislation. I believe this bill encompasses the purpose of protecting Hawaii consumers which should be paramount. Further, it accomplishes this purpose by applying mandatory CPA firm peer review in an equitable manner to all firms that practice in Hawaii, irrespective of the size of the firm or where it is based.

This bill implements the mandatory peer review law that was passed two years ago. Although passed in 2010 the peer review law was not implemented because the Hawaii Board of Public Accountancy failed to pass administrative rules for the peer review law. The peer review law was to be implemented one year after the Hawaii Board of Public Accountancy passed its rules. This failure on their part is a blight upon my chosen profession. It is time to proceed in all haste to show the public that we deserving of their trust placed upon us by passing legislation such as HB2169, HD1.

The provisions of HB2169, HD1 provides that all firms, including the Hawaii offices and Hawaii engagements of foreign or multistate firms, shall undergo peer review every three years on the firm's Hawaii attest work. By subjecting the Hawaii work of out-of-state CPA firms to be peer reviewed, the Hawaii consumer is further protected and the peer review process would be fairly and equitably applied to all CPAs that perform attest work in Hawaii.

I respectfully request your support of HB2169,HD1. Thank you for this opportunity to testify.

Respectfully submitted,

Leslie S. Kaya, CPA

herkes2 - Marlene

From: Peggy Andersen [peggycpa@hawaiiantel.net]
Sent: Friday, February 10, 2012 10:26 AM
To: CPCtestimony
Subject: HB2169, HD1 Testimony - 2/13/12 CPC Committee

House Committee on Consumer Protection & Commerce

Monday, February 13, 2012 at 2:15 p.m., Conference Room 325

Re: Support for HB2169, HD1

Chair Robert N. Herkes, Vice Chair Ryan I. Yamane, and Committee Members:

I am a CPA on the Big Island of Hawaii, and I support HB2169, HD1, because it will help protect Hawaii's consumers as well as apply mandatory CPA firm peer review requirements fairly and equally to all firms in public practice in Hawaii, regardless of the size or location of the firm.

HB2169, HD1 implements the mandatory peer review law that was passed two years ago. The 2010 peer review law was never implemented because the Board of Public Accountancy (Board) failed to pass administrative rules for the peer review law. The peer review law was to be implemented one year after the Board passed its rules. Instead, the Board spent much of its time in 2011 passing a rule that allows a CPA licensee without continuing professional education (except for ethics) to certify the professional experience of a new CPA candidate.

HB2169, HD1 provides that all firms, including the Hawaii offices and Hawaii engagements of foreign or multistate firms, shall undergo peer review every three years on the firm's Hawaii attest work. By subjecting the Hawaii work of out-of-state CPA firms to be peer reviewed, the Hawaii consumer is further protected and the peer review process would be fairly and equitably applied to all CPAs that perform attest work in Hawaii.

Please support HB2169, HD1. Thank you for this opportunity to testify.

Mahalo,

Peggy J. Andersen, CPA #3667

75-5773 Iuna Place
Kailua-Kona, HI 96740-1905

Phone & Fax: 808-329-8809

Email: peggycpa@hawaiiantel.net

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Deborah Daniells & Associates, CPAs, JNC.

Certified Public Accountants

106 Central Avenue
Wailuku, Hawaii 96793

Before the House Committee on Consumer Protection & Commerce

Monday, February 13, 2012 at 2:15 p.m.

Conference Room 325

Re: Support for HB2169, HD1

Chair Robert N. Herkes, Vice Chair Ryan I. Yamane, and Committee Members:

I am a Certified Public Accountant and practice public accounting on Maui. I am the principal owner of Deborah Daniells & Associates CPAs, Inc. I support HB2169, HD1 because it will help protect Hawaii's consumers as well as apply mandatory CPA firm peer review requirements fairly and equally to all firms that practice before the public in Hawaii, regardless of the size of the firm or where it is based.

This bill implements the mandatory peer review law that was passed two years ago. The 2010 peer review law was never implemented because the Board of Public Accountancy (Board) failed to pass administrative rules for the peer review law. The peer review law was to be implemented one year after the Board passed its rules. Instead, the Board spent much of its time in 2011 passing a rule that allows a CPA licensee without continuing professional education (except for ethics) to certify the professional experience of a new CPA candidate.

HB2169, HD1 provides that all firms, including the Hawaii offices and Hawaii engagements of foreign or multistate firms, shall undergo peer review every three years on the firm's Hawaii attest work. By subjecting the Hawaii work of out-of-state CPA firms to be peer reviewed, the Hawaii consumer is further protected and the peer review process would be fairly and equitably applied to all CPAs that perform attest work in Hawaii.

Please support HB2169, HD1. Thank you for this opportunity to testify.

Respectfully submitted,

DEBORAH DANIELLS & ASSOCIATES, CPAs, INC.

Deborah Lee-Daniells, MBA, CPA



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