

**PRESENTATION OF THE
BOARD OF PUBLIC ACCOUNTANCY**

**TO THE HOUSE COMMITTEE ON
ECONOMIC REVITALIZATION & BUSINESS**

**TWENTY-SIXTH LEGISLATURE
Regular Session of 2012**

**Tuesday, March 13, 2012
8:30 a.m.**

**TESTIMONY ON SENATE BILL NO. 2421, S.D. 1, RELATING TO PUBLIC
ACCOUNTANCY.**

**TO THE HONORABLE ANGUS L.K. MCKELVEY, CHAIR,
AND MEMBERS OF THE COMMITTEE:**

My name is Thomas Ueno and I am the Chairperson of the Board of Public Accountancy ("Board"). Thank you for the opportunity to present testimony on Senate Bill No. 2421, S.D. 1, Relating to Public Accountancy.

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

The Board has completed its drafting of administrative rules to implement Act 66, SLH 2010 ("the Act"), which requires a CPA firm that engages in Hawaii attest work to have this work reviewed as a condition of renewing its firm permit to practice. At its meeting earlier this month, the Board discussed these draft rules and the comments it received from its stakeholders, both prior to and at the meeting, specifically the Hawaii Association of Public Accountants, the Hawaii Society of Certified Public Accountants, the American Institute of Certified Public Accountants ("AICPA"), and the Accountants Coalition.

After a full discussion of all the comments and recommendations it received, the Board voted unanimously to incorporate a number of revisions in the draft rules, and then approved the final draft that will proceed through the administrative rulemaking process, to public hearing, and to final adoption.

While working to finalize the administrative rules at its last meeting, the Board engaged in a parallel discussion of this measure to see how the provisions in this bill compared with its final draft rules. It appears that this bill would be a statutory alternative to the rules that were just approved by the Board. While the Board recognizes the importance of expeditious implementation of a peer review process, it urges this committee to allow the Board to complete that implementation by rule rather than statute.

If this committee is inclined to implement the peer review process through this bill, the Board offers the following comments:

1. Monitoring Responsibilities.

The bill places many of the peer review monitoring and repository functions to the Board, rather than to either the administering entity or the sponsoring organization, as is typically done. The Board is concerned that these functions would be very difficult to carry out, given that the Board operates with limited financial and staffing resources. Examples of these duties that the bill mandates are: monitoring sponsoring organizations, acting as the report acceptance body, accessing the PCAOB inspection reports, and overseeing the peer reviewers in determining their qualifications and approving their peer review procedures. The Board fully understands its role as the overall administrator and director of the peer review program, but believes that the

mentioned duties are functions of the program's administering entities or sponsoring organizations, a belief that is generally accepted by states with mandatory peer review programs and a belief that is reflected in the Board's rules.

2. Section 466-A Definitions.

In its final draft rules, the Board has included a number of definitions of terminology specific to a peer review program, understanding that there are CPAs and CPA firms that do not currently undergo peer review in the State and are therefore not familiar with the terminology, as are the CPAs and firms that currently participate in the AICPA peer review program. The Board proposes the addition of definitions of the following terms: "administering entity", "agreed-upon procedures", "AICPA", "Hawaii attest work", "non-cooperation", "PCAOB", "peer review oversight committee", and "qualified reviewer", because they do not currently appear in this section.

Also, in its discussion of the requirement for a rating issued by a peer reviewer, the Board determined that it would not require that the CPA firm divulge the rating it received in a peer review report because, although required by the administering entity and sponsoring organization for their purposes, the Board would not need to know the CPA firm's rating. Instead, the Board would require the CPA firm to certify on its renewal documents that it has undergone a peer review, a PCAOB inspection, and/or an agreed-upon procedures engagement, and this certification would be sufficient to provide evidence that the firm has complied with the peer review requirement for permit renewal.

3. Section 466-C Standards for peer reviews and sponsoring organizations.

In sub-paragraph (a), the Board proposes the deletion of the phrase “and any applicable ethical requirements”. The AICPA has told the Board that it believes the phrase is unnecessary, and the Board is concerned that this phrase could encompass all of the ethical standards put forth by the AICPA, and not just those pertaining to peer reviews. In addition, it is the Board’s understanding that the AICPA prefers the term “promulgated” rather than “adopted”, in reference to its standards.

4. Section 466-D Enrollment and participation.

The Board believes that the requirements in sub-paragraphs (b) and (c)(1), (2), and (3), which mandate that the CPA firm must notify the Board of the onset of its performance of attest work, must abide by enrollment requirements, and must notify the Board of enrollment information, are part of the administering entity’s or sponsoring organization’s peer review plan and procedures, and should not be duties required of the Board.

5. Section 466-E Peer review compliance reporting form.

This section of the bill requires the Board to act as the acceptance body and repository for all peer review reports, PCAOB inspection reports, and agreed-upon procedures or supplement reports. The Board believes this responsibility is usually within the purview of the administering entity or sponsoring organization. The Board envisions the Hawaii peer review program to include a random audit of firm permits to practice to verify the accuracy of a CPA firm’s certification on renewal documents that it has undergone a peer review and/or a PCAOB inspection and/or a supplement or agreed-upon procedures engagement in accordance with the appropriate standards. This procedure is comparable to how the Board verifies compliance with its requirement

that a CPA earn continuing professional education (“CPE”) for the renewal of the CPA’s individual permit to practice. Those procedures call for the CPA to certify to having obtained the requisite CPE on his or her renewal documents. Similarly, in this case, a CPA firm would be held accountable for its certification on its renewal documents that it has undergone the appropriate review or inspection. Also, the CPA firm would be required to retain its peer review reports for at least two biennial renewal periods and provide them as verification should their firm permit to practice be selected in the random audit, similar to what is required of the CPA should the CPA’s renewal documents be selected in the random audit of individual permits to practice.

6. Section 466-F Hawaii supplement to the peer review; report.

The description of the supplement to the peer review basically parallels the Board’s “agreed-upon procedures engagement”, as described in its administrative rules. However, there is a major difference in that the Board’s agreed-upon procedures engagement is to be entered into by a firm ONLY IF the peer review that is required of all firms did not specifically review at least one engagement of Hawaii attest work. The language in the bill appears to require a CPA firm to do both, even if the peer review actually included the review of an engagement of Hawaii attest work.

In addition, this section specifies what the supplement report must include. In its rules, the Board delegates these reporting parameters to the qualified reviewer, who is certified to do so for peer reviews, and so would also be certified to do so for any agreed-upon procedures engagements. Furthermore, the bill requires that these reports be received and maintained by the Board, a provision which the Board opposes for the reasons stated earlier.

7. Section 466-H Reporting to the board.

The provisions of this section relate to the submittal to the Board of documents and notifications relevant to the peer review program. Again, the Board believes that the appropriate procedure is for the administering entity or sponsoring organization to be responsible for these documents and notifications. Through the random audit described earlier, the Board would monitor the compliance of CPA firms to the peer review program requirements.

8. Section 466-L Peer review oversight committee.

Following the best practices of other states and jurisdictions that require peer review, the Board's rules allow for the discretionary establishment of a peer review oversight committee to assist the Board in administering the peer review program. Fielding CPAs to voluntarily serve on such a committee is of concern because of the smaller pool of candidates here in Hawaii, (1500 CPAs with a permit to practice, a total which includes out-of-State CPAs), as opposed to other states with much larger pools of CPAs in practice from which to attract and acquire volunteers. The required qualifications of these committee members that are described in the bill would further reduce the number of CPAs who could serve. Also, committee members would be true volunteers who, like the members of the Board, would not receive any compensation or reimbursement for expenses.

The Board is also concerned that although the bill requires the oversight committee and mandates its responsibilities, there is no contingency for the very real possibility that the Board is unable to find members. As written, these described responsibilities could not be fulfilled as there is no provision for this potential situation.

In closing, the Board would like to respectfully request that this Committee consider that the Board's approved set of administrative rules is moving forward towards adoption. The Board believes that its rules provide a workable system of peer review that is in full compliance with Act 66.

Thank you for the opportunity to testify on Senate Bill No. 2421, S.D. 1. I will be available to answer any questions you may have.

From: HAPAPresident@aol.com
Sent: Sunday, March 11, 2012 10:49 PM
To: ERBtestimony
Cc: Rep. Isaac W. Choy
Subject: Testimony in Support of SB2421, SD1, with Amendments

Testimony of the Hawaii Association of Public Accountants

Before the House Committee on Economic Revitalization & Business

Tuesday, March 13, 2012 at 8:30 a.m.

Conference Room 312

Re: Support for SB2421, SD1, With Amendments

Dear Chair Angus L.K. McKelvey, Vice Chair Isaac W. Choy, and Committee Members:

I am a certified public accountant (CPA) and State President of the Hawaii Association of Public Accountants (HAPA). HAPA supports SB2421 because it will help protect Hawaii's consumers as well as apply mandatory CPA firm peer review requirements equitably and fairly to all firms that practice before the public in Hawaii, regardless of the size of the firm or where it is based.

As you know, Act 66 of 2010 established mandatory peer review for CPA firms performing attestation work in Hawaii. Although nearly two years have since passed, the Board of Public Accountancy has yet to complete and release to the public draft administrative rules for implementation of Act 66. SB2421, SD1 fills this void and provides implementation guidance.

Since SB2421 was heard by the Senate Committee on Commerce and Consumer Protection, representatives of HAPA and the Hawaii Society of Certified Public Accountants (HSCPA) have collaborated to further develop and refine implementation guidance for Act 66 beyond what is contained in SB2421, SD1. This guidance is already reflected in HB2169, HD2, which HAPA considers to be complete and ready for passage. Accordingly,

HAPA thanks the Senate Committee on Commerce and Consumer Protection for its work in developing SB2421, SD1, but respectfully requests that SB2421, SD1 be amended to mirror HB2169, HD2 and passed.

Thank you for this opportunity to testify.

Respectfully submitted,

John W. Roberts, M.B.A., CPA
HAPA State President

From: HSCPA Communication [info@hscpa.org]
Sent: Monday, March 12, 2012 12:28 PM
To: ERBtestimony
Subject: Testimony in Support of SB 2421, SD1

**BEFORE THE HOUSE COMMITTEE
ON ECONOMIC REVITALIZATION & BUSINESS**

**Tuesday, March 13, 2012 at 8:30 a.m.
State Capitol, Conference Room 312**

In Support of Senate Bill 2421, SD1

Chair McKelvey, Vice-Chair Choy, 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 Senate Bill 2421, SD1 as a working document to achieve legislation that is implementable.

We ask for your support in passing this bill as we continue to work with the proponents on additional clarifications toward a final version.

Respectfully submitted,

 PA
HSCPA Board of Directors

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 COMMITTEE ON ECONOMIC
REVITALIZATION & BUSINESS**

In Support of Senate Bill 2421

**Tuesday, March 13, 2012 at 8:30 am
State Capitol, Conference Room 312**

Chair McKelvey, Vice-Chair Choy, and Members of the Committee:

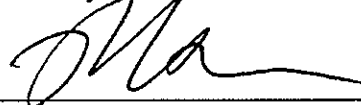
My name is Ronald Heller. I am a practicing attorney, and also licensed as a Certified Public Accountant. I support the concept of peer review for CPAs, but I have some serious concerns about Senate Bill 2421 in its current form.

The American Institute of Certified Public Accountants has established national standards and procedures for the peer review of CPA firms. Those standards are recognized and followed across the country. The standards and procedures are clear and well-defined.

SB 2421, in its current form, appears to impose requirements in Hawaii that may be different from the established national standards. In its current form, this bill could create confusion and uncertainty. This bill needs further work, although it is basically headed in the right direction.

The basic goal is to make sure that all CPA firms undergo a regular peer review. We can do that – and we should do that – in a way that is consistent with the applicable national standards.

Respectfully submitted,



Ronald I. Heller