
A BILL FOR AN ACT

RELATING TO HIGHER EDUCATION.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that the prudent and
2 transparent management of public funds appropriated by the
3 legislature and expended by the University of Hawaii is a matter
4 of statewide concern and therefore under the legislature's
5 purview pursuant to article X, section 6, of the Hawaii state
6 constitution.

7 The purpose of this Act, therefore, is to establish an
8 independent audit committee within the board of regents of the
9 University of Hawaii to assist the board in discharging its
10 constitutional powers and duties with respect to the university.

11 SECTION 2. Chapter 304A, Hawaii Revised Statutes, is
12 amended by adding a new section to subpart A of part I to be
13 appropriately designated and to read as follows:

14 "§304A- Independent audit committee; established. (a)
15 There is established within the board of regents of the
16 University of Hawaii an advisory body to be known as the
17 independent audit committee.



1 (b) The independent audit committee shall consist of at
2 least three members but not more than five members who shall be
3 appointed by the chairperson of the board of regents, from among
4 the members of the board of regents, except as provided under
5 subsection (e). The chair of the independent audit committee
6 shall be selected by and from among its members.

7 (c) The board of regents shall generally:

8 (1) Establish the charter of the independent audit
9 committee and set forth its members' roles and
10 responsibilities;

11 (2) Consider changes to the independent audit committee's
12 charter that are necessary in response to new laws,
13 regulations, and best practices; and

14 (3) Conduct an annual review of the independent audit
15 committee's charter to reassess its adequacy and adopt
16 any proposed and necessary changes to the charter.

17 (d) The independent audit committee shall be exempt from
18 chapter 91 and from chapter 92 to the extent that the
19 independent audit committee is engaging in an investigation
20 relating to civil or criminal conduct, whether or not the
21 investigation is pending or outstanding.



1 (e) The independent audit committee shall include one or
2 more individuals with financial expertise. If no member of the
3 board of regents has the requisite skills, the board of regents
4 shall execute other arrangements, which may include the
5 appointment of members of the general public to the independent
6 audit committee who possess the requisite financial expertise,
7 to ensure that the independent audit committee has the capacity
8 to carry out its duties.

9 (f) The independent audit committee shall undertake
10 professional development to improve the financial expertise of
11 the independent audit committee as a whole, including:

- 12 (1) Attendance at seminars and conferences;
13 (2) Special speakers at educational sessions; and
14 (3) The study of analytical tools for audit committees.

15 (g) The independent audit committee shall engage in
16 operations relating to enterprise risk management, including but
17 not limited to:

- 18 (1) Providing oversight of risk management, including
19 determining overall strategy and influencing the
20 university's risk philosophy;
21 (2) Inquiring of the president of the University of
22 Hawaii, the chief financial officer of the university,



- 1 and external auditors about significant risks or
2 exposures faced by the university;
- 3 (3) Assessing steps that the president of the University
4 of Hawaii has taken or proposes to take to minimize
5 those risks to the university;
- 6 (4) Periodically reviewing compliance with those steps;
7 and
- 8 (5) Reviewing with the general counsel of the University
9 of Hawaii, external auditors, external counsel, and
10 the chief financial officer of the university legal
11 and regulatory matters that, in the opinion of the
12 president of the University of Hawaii, may have a
13 material impact upon the financial statements, related
14 organization compliance policies, and programs and
15 reports received from regulators.
- 16 (h) The independent audit committee shall hold meetings as
17 needed to address matters on its agenda, but not less frequently
18 than twice per year. The independent audit committee may
19 request the attendance of the president of the University of
20 Hawaii or others to provide pertinent information as necessary.
21 The board of regents shall provide in the charter of the



1 independent audit committee for the unanimous consent approval
2 of actions to deal with decisions required between meetings.

3 (i) The independent audit committee shall review its
4 effectiveness annually and shall prepare, or oversee the
5 preparation of, an annual report to the board of regents.

6 (j) The independent audit committee annual report shall
7 address other matters affecting the management and organization
8 of the University of Hawaii by engaging in functions, including:

9 (1) Reviewing with the president of the University of
10 Hawaii and the external auditor the effect of any
11 regulatory and accounting initiatives and unique
12 transactions, including relationships with legally
13 separate entities, to determine whether the accounting
14 for those transactions applied best practices;

15 (2) Reviewing significant related party transactions;

16 (3) Reviewing with the president of the University of
17 Hawaii and the chief financial officer of the
18 university, any interim financial reports or reports
19 on internal control issued with respect to the
20 university since the last meeting of the independent
21 audit committee; and



- 1 (4) Reviewing with any external auditor who performs an
2 audit the following:
- 3 (A) All critical accounting policies and practices
4 used by the external auditor; provided that:
- 5 (i) All alternative treatments of financial
6 information within generally accepted
7 accounting principles have been discussed
8 with the president of the University of
9 Hawaii;
- 10 (ii) The ramifications of each alternative are
11 discussed; and
- 12 (iii) The treatment preferred by the university is
13 discussed;
- 14 (B) Any consultation with audit firms other than the
15 external auditor, including the reasons for, and
16 results of, the consultation; and
- 17 (C) Any other information relating to significant
18 estimates and judgments.
- 19 (k) The independent audit committee shall also review with
20 any external auditor and the chief financial officer of the
21 university matters affecting the internal control and internal
22 audit, including:



1 (1) The adequacy of the University of Hawaii's internal
2 controls, including computerized information system
3 controls and security; and

4 (2) Any related significant findings and recommendations
5 of the external auditor and internal audit services,
6 together with the responses of the president of the
7 University of Hawaii.

8 (1) The independent audit committee shall also review
9 matters affecting the accounting policies and procedures of the
10 University of Hawaii by:

11 (1) Ensuring that accounting policies, procedures, and
12 related controls are documented and reviewed with the
13 independent audit committee;

14 (2) Reviewing accounting controls annually;

15 (3) Reviewing with the president of the University of
16 Hawaii policies and procedures with respect to
17 officers, key employees, and disqualified persons as
18 defined under section 4958 of the Internal Revenue
19 Code of 1986, as amended; and

20 (4) Inquiring of the president of the University of Hawaii
21 and the chief financial officer regarding the
22 financial health of the university.



1 (m) The independent audit committee shall review the
2 University of Hawaii's antifraud programs and controls and aid
3 in discovery and remedy if incidences of fraud should occur.

4 (n) Notwithstanding part V of chapter 378, the independent
5 audit committee shall review:

6 (1) Procedures for the receipt, retention, and treatment
7 of complaints received by the University of Hawaii
8 regarding accounting, internal accounting controls,
9 auditing matters, or suspected fraud that may be
10 submitted by any party internal or external to the
11 university; and

12 (2) Any complaints that may have been received, the
13 current status of such complaints, and the resolution
14 of such complaints, if any resolution has been
15 reached;

16 provided that complaints under this section shall be accorded
17 the same protections as under part V of chapter 378.

18 (o) With regard to internal control and internal audit,
19 the independent audit committee shall also:

20 (1) Review with any external auditor, the chief financial
21 officer of the university, and the comptroller the
22 audit scope and plan of the internal auditors;



- 1 (2) Address the coordination of audit efforts to ensure
2 the completeness of coverage, reduction of redundant
3 efforts, and the effective use of audit resources; and
- 4 (3) Discuss with the chief financial officer of the
5 university and the external auditor opportunities for
6 reliance by the external auditor on the audit
7 activities of any internal audit.
- 8 (p) For internal audits, the independent audit committee
9 shall review the following with the president of the University
10 of Hawaii and the chief financial officer of the university:
- 11 (1) Significant findings of internal audits conducted
12 during the university's previous and current fiscal
13 year and the president's responses;
- 14 (2) Whether internal auditors have encountered
15 difficulties in discharging their responsibilities in
16 the course of their audits, such as any restrictions
17 on the scope of their work or access to required
18 information;
- 19 (3) Any changes required in the scope of internal audits;
20 (4) The budget and staffing of internal audit operations;
21 (5) An audit plan to govern internal audits; and



1 (6) The compliance of internal audits with the Institute
2 of Internal Auditors' International Standards for the
3 Professional Practice of Internal Auditing.

4 (q) Internal auditors shall meet separately with any
5 external auditor to coordinate audit plans to optimize the
6 ability of the external auditor to rely upon the results of the
7 internal audit team.

8 (r) The independent audit committee shall annually
9 evaluate the performance of the internal audit, including:

10 (1) The adequacy of the audit plan;

11 (2) The management of the execution of the audit plan;

12 (3) The adequacy of human and other resources available to
13 execute the audit plan;

14 (4) The ability of any external auditor to rely upon the
15 internal audit work product in the external auditor's
16 annual audit; and

17 (5) The nature of the findings or results of any internal
18 audits.

19 (s) Subject to approval by the board of regents, the
20 independent audit committee shall select one or more external
21 auditors to be retained by the University of Hawaii. The
22 independent audit committee shall:



- 1 (1) Approve the audit plan;
- 2 (2) Establish the audit fees of any external auditor;
- 3 (3) Pre-approve any non-audit services provided by the
4 external auditor, including tax services, before such
5 services are rendered;
- 6 (4) Review with the president of the University of Hawaii
7 the significance of contracting out audit services;
8 and
- 9 (5) Ensure that single audit obligations are incorporated
10 into the annual audit plan.
- 11 (t) The independent audit committee shall review all
12 material written communications between any external auditor and
13 the president of the University of Hawaii, such as any
14 management letter or schedule of unadjusted differences.
- 15 (u) The independent audit committee shall annually
16 evaluate any external auditor; provided that communications with
17 the external auditor in the evaluation shall be done so as to
18 maintain the open flow of communication between the external
19 auditor and the independent audit committee.
- 20 (v) The independent audit committee shall review the
21 following matters relating to the annual audit with the
22 president of the University of Hawaii and any external auditor:



- 1 (1) The university's annual financial statements and
2 related footnotes;
- 3 (2) The external auditor's audit of the financial
4 statements and the external auditor's report;
- 5 (3) The external auditor's judgments about the quality of
6 the university's accounting principles as applied in
7 the university's financial reporting;
- 8 (4) Any significant changes required in the external
9 auditor's audit plan;
- 10 (5) Any serious difficulties or disputes with the
11 president of the University of Hawaii encountered
12 during the audit; and
- 13 (6) Matters to be discussed by Statement on Auditing
14 Standards No. 114, The Auditor's Communication with
15 those Charged with Governance (AICPA, Professional
16 Standards), related to the conduct of the annual
17 audit.
- 18 (w) The independent audit committee may hire external
19 auditors, legal counsel, or other consultants as necessary, to
20 address any issues arising from:
- 21 (1) The execution of the whistleblower protection
22 procedures established under subsection (n);



1 (2) Any statutory or contractual procedures when engaging
2 external resources; and

3 (3) The detection of fraud.

4 (x) The independent audit committee shall submit an annual
5 report to the board of regents and the legislature no later than
6 twenty days prior to the convening of each regular session on
7 matters that include the following:

8 (1) All instances of material weakness in internal
9 control, including the responses of university
10 management to these instances; and

11 (2) All instances of fraud, including the responses of
12 university management to these instances."

13 SECTION 3. New statutory material is underscored.

14 SECTION 4. This Act does not affect rights and duties that
15 matured, penalties that were incurred, and proceedings that were
16 begun before its effective date.

17 SECTION 5. This Act shall take effect upon its approval.



Report Title:

University of Hawaii Board of Regents; Independent Audit
Committee

Description:

Establishes an Independent Audit Committee within the Board of
Regents of the University of Hawaii. (HB114 HD1)

*The summary description of legislation appearing on this page is for informational purposes only and is
not legislation or evidence of legislative intent.*

