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# 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 part I of chapter 92 to the extent that the  
19 independent audit committee is engaging in discussions or  
20 proceedings arising from an investigation by the independent  
21 audit committee relating to potentially actionable civil or



1 criminal conduct, whether or not the investigation is pending or  
2 outstanding.

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

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

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

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

- 20 (1) Providing oversight of risk management, including  
21 determining overall strategy and influencing the  
22 university's risk philosophy;



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



1 The board of regents shall provide in the charter of the  
2 independent audit committee for the independent audit  
3 committee's unanimous consent approval of actions to deal with  
4 decisions required between meetings.

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

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

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

17 (2) Reviewing significant related party transactions;

18 (3) Reviewing with the president of the University of  
19 Hawaii and the chief financial officer of the  
20 university, any interim financial reports or reports  
21 on internal control issued with respect to the



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



1 university matters affecting internal control and the internal  
2 audit, including:

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

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

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

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

16 (2) Reviewing accounting controls annually;

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



1       (4) Inquiring of the president of the University of Hawaii  
2           and the chief financial officer regarding the  
3           financial health of the university.

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

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

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

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

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

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





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



1        (4) The budget and staffing of internal audit operations;

2        (5) An audit plan to govern internal audits; and

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

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

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

12       (1) The adequacy of the audit plan;

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

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

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

19       (5) The nature of the findings or results of any internal  
20       audits.

21       (s) Subject to approval by the board of regents, the  
22       independent audit committee shall select one or more external



1 auditors to be retained by the University of Hawaii. The  
2 independent audit committee shall:

3 (1) Approve the audit plan;

4 (2) Establish the audit fees of any external auditor;

5 (3) Pre-approve any non-audit services provided by the  
6 external auditor, including tax services, before such  
7 services are rendered;

8 (4) Review with the president of the University of Hawaii  
9 the significance of contracting out audit services;  
10 and

11 (5) Ensure that single audit obligations are incorporated  
12 into the annual audit plan.

13 (t) The independent audit committee shall review all  
14 material written communications between any external auditor and  
15 the president of the University of Hawaii, such as any  
16 management letter or schedule of unadjusted differences.

17 (u) The independent audit committee shall annually  
18 evaluate any external auditor; provided that communications with  
19 the external auditor in the evaluation shall be done so as to  
20 maintain the open flow of communication between the external  
21 auditor and the independent audit committee.



- 1        (v) The independent audit committee shall review the  
2 following matters relating to the annual audit with the  
3 president of the University of Hawaii and any external auditor:
- 4        (1) The university's annual financial statements and  
5 related footnotes;
- 6        (2) The external auditor's audit of the financial  
7 statements and the external auditor's report;
- 8        (3) The external auditor's judgments about the quality of  
9 the university's accounting principles as applied in  
10 the university's financial reporting;
- 11       (4) Any significant changes required in the external  
12 auditor's audit plan;
- 13       (5) Any serious difficulties or disputes with the  
14 president of the University of Hawaii encountered  
15 during the audit; and
- 16       (6) Matters to be discussed by Statement on Auditing  
17 Standards No. 114, The Auditor's Communication with  
18 those Charged with Governance (AICPA, Professional  
19 Standards), related to the conduct of the annual  
20 audit.



1       (w) The independent audit committee may hire external  
2 auditors, legal counsel, or other consultants as necessary, to  
3 address any issues arising from:

4       (1) The execution of the whistleblower protection  
5 procedures established under subsection (n);

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

8       (3) The detection of fraud.

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

13       (1) All instances of material weakness in internal  
14 control, including the responses of university  
15 management to these instances; and

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

18       SECTION 3. New statutory material is underscored.

19       SECTION 4. This Act does not affect rights and duties that  
20 matured, penalties that were incurred, and proceedings that were  
21 begun before its effective date.

22       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 HD2)

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

