

**PRESENTATION OF THE
BOARD OF PUBLIC ACCOUNTANCY**

**TO THE HOUSE COMMITTEE ON
CONSUMER PROTECTION AND COMMERCE
TWENTY-EIGHTH LEGISLATURE
Regular Session of 2016**

Wednesday, February 10, 2016
2:10 p.m.

TESTIMONY ON HOUSE BILL NO. 2651, RELATING TO PUBLIC ACCOUNTANCY.

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

My name is Nelson Lau, and I am the Chairperson of the Board of Public Accountancy ("Board"). Thank you for the opportunity to testify on behalf of the Board in strong support of House Bill No. 2651, Relating to Public Accountancy, with amendments that I will explain later in my testimony.

Pursuant to section 466-32, Hawaii Revised Statutes ("HRS"), a peer review process has been established to review the attest work of CPA firms. Attest work includes: (1) any audit, review, compilation, and any examination of prospective financial information, which are engagements performed in accordance with standards of the American Institute of Certified Public Accountants; (2) any engagement to be performed in accordance with government auditing standards; and (3) any engagement to be performed in accordance with the standards of the Public Company Accounting Oversight Board. Simply put, attestation is the process of independent examination performed by a Certified Public Accountant ("CPA") of the validity of an entity's financial data. This objective evaluation encompasses all research done, including all of the testing and examination of a company's financial data. The goal of an attest function is

for the CPA to express an opinion on a company's financial statements and provide some assurance as to their accuracy. As such, it is one of the most important duties of any CPA.

Hawaii CPA firms that perform attest work are required to undergo a peer review every three (3) years. As an integral part of the peer review, the firm's Hawaii offices, if any, and Hawaii attest engagements must be included in the scope of the peer review. Therefore, performance of Hawaii attest work by a CPA firm is the reason these firms must undergo peer review. In fact, the terms "Hawaii attest work" and "Hawaii attest engagement" are used throughout the statute, appearing nearly twenty (20) times within the sections of the statute relating to peer review. In spite of the term being the actual basis for a firm having to undergo a peer review, the Board has found that many firms are unclear as to what constitutes a Hawaii attest engagement and have appealed to the Board for clarification. This measure proposes to clearly define "Hawaii attest work" to ensure that CPA firms that are required to undergo peer review understand what professional work should be included in the scope of the peer review.

The proposed definition clarifies that the Hawaii attest work is professional work done for clients of a CPA firm who/that are: (1) an individual who is a Hawaii resident; (2) a person, entity, firm, or trust that is domiciled in Hawaii or whose principal or home office is physically located in this State; or (3) a subsidiary that has a physical presence in Hawaii and has a separate, stand-alone financial statement or report issued on that subsidiary.

This measure also includes an amendment to the definition of “peer review” and other language that the Board asks to be deleted from this bill. This additional language relates to amendments to chapter 466, HRS, that the Board is proposing in a separate bill, House Bill No. 1669, which was passed unamended by the House Committee on Economic Development & Business last week, and is the preferred vehicle for those changes.

The Board’s suggested changes are attached to my testimony for your consideration. They are: (1) delete language beginning with line 16 on page 1 through page 2 in its entirety and through lines 1 through 5 on page 3; (2) on page 3, renumber Section 3 to Section 2; and (3) on page 3, renumber Section 4 to Section 3.

In closing, the Board strongly supports House Bill No. 2651, as amended with the Board’s suggested changes. Thank you for this opportunity to testify. I will be available to answer any questions you may have.

A BILL FOR AN ACT

RELATING TO PUBLIC ACCOUNTANCY.

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

1 SECTION 1. Section 466-3, Hawaii Revised Statutes, is
2 amended as follows:

3 1. By adding a new definition to be appropriately inserted
4 and to read:

5 "Hawaii attest work" means attest services provided or
6 attest reports issued by an individual or firm licensed and
7 authorized to practice public accountancy in this State or any
8 other state, to any of the following clients:

9 (1) An individual who is a resident of this State;

10 (2) A person, entity, firm, or trust that is domiciled
11 within this State, or whose principal or home office
12 is physically located within this State; or

13 (3) A subsidiary that has a physical presence in this
14 State, and has a separate, stand-alone financial
15 statement or report issued on that subsidiary."

16 ~~[2. By amending the definition of "peer review" to read:~~



1 ~~"Peer review" means a study, appraisal, or review of one~~
2 ~~or more aspects of the professional work of a firm that issues~~
3 ~~attest reports by a person or persons who hold permits or~~
4 ~~licenses to practice public accountancy under section 466-7 or~~
5 ~~another jurisdiction and who are not affiliated with the firm~~
6 ~~being reviewed."~~

7 ~~SECTION 2. Section 466-35, Hawaii Revised Statutes, is~~
8 ~~amended by amending subsection (b) to read as follows:~~

9 ~~"(b) A firm shall include, with the peer review compliance~~
10 ~~reporting form, the contemporaneous Hawaii supplement to the~~
11 ~~peer review report pursuant to section 466-36, if:~~

12 ~~(1) A peer review report from an approved sponsoring~~
13 ~~organization does not include the selection of a~~
14 ~~Hawaii office or Hawaii attest engagement;~~

15 ~~(2) The peer reviewer does not hold permits to practice~~
16 ~~public accountancy under section 466-7[,] (permits to~~
17 ~~practice), and is required to have permits to practice~~
18 ~~under section 466-7, except inspectors for the public~~
19 ~~company accounting oversight board; or~~

20 ~~(3) The final report resulting from any inspection by the~~
21 ~~public company accounting oversight board firm~~



1 ~~inspection program does not include the firm's Hawaii~~
2 ~~offices, if any, and Hawaii attest engagements in the~~
3 ~~scope of the inspection, and the firm is not required~~
4 ~~to enroll in another peer review program under section~~
5 ~~466-34."]~~

6 SECTION [3]2. Statutory material to be repealed is
7 bracketed and stricken. New statutory material is underscored.

8 SECTION [4]3. This Act shall take effect upon its
9 approval.

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INTRODUCED BY: _____

HB2651 Proposed HD1 CCA-PVL(ACCT) 02-10-16 CPC.doc

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Report Title:

Public Accountancy; Hawaii Attest Work [~~Peer Review~~]

Description:

Defines the term "Hawaii attest work". [~~Provides clarification to the term "peer review".~~]

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

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