

**Palau Board of Accountancy  
Rules and Procedures**

**SECTION 1  
TITLE**

**Palau Board of Accountancy "Rules and Procedures."**

**SECTION 1** Reserved

**SECTION 2** Reserved

**SECTION 3**

**DEFINITIONS**

When used in these Rules and Procedures, the following terms have the meanings indicated:

- (a) "Board" means the Republic of Palau Board of Accountancy established under Section 1 of RPPL No. 3-71.
- (b) "Certificate" means a certificate as "certified public accountant" issued under Section 6 of these rules and procedures or a corresponding certificate as certified public accountant issued after examination under the law of any other state.
- (c) "Firm" means a sole proprietorship, a corporation, or a partnership.
- (d) "License" means a permit issued under Section 7 of these Rules and Procedures.
- (e) "Licensee" means the holder of a license as defined in Section 3(d).

- (f) "Permit" means a permit to practice public accountancy issued under section 7 of these rules and procedures or under corresponding provisions of the laws of other states.
- (g) "Practice of (or practicing) public accountancy" means the performance or the offering to perform by a person or firm holding itself out to the public as a licensee, for a client or potential client, of one or more kinds of services involving the use of accounting or auditing skills, including the issuance of reports on financial statements, or of one or more kinds of management advisory, financial advisory or consulting services.
- (h) "Quality Review" means a study, appraisal, or review of one or more aspects of the professional work of a person or firm in the practice of public accountancy, by a person or persons who hold certificates and who are not affiliated with the person or firm being reviewed.
- (i) "Report," when used with reference to financial statements, means an opinion, report, or other form of language that states or implies assurance as to the reliability of any financial statements and that also includes or is accompanied by any statement or implication that the person or firm issuing it has special knowledge or competence in accounting or auditing. Such a statement or implication of special knowledge or competence may arise from use by the issuer of the report of names or titles indicating that the person or it is an accountant or auditor, or from the language of the report itself. The term "report" includes any form of language which disclaims an opinion when such form of language is conventionally understood to imply any positive assurance as to the reliability of the financial statements referred to and/or special competence on the part of the person or firm issuing such language; and it includes any other form of language that is conventionally understood to imply such assurance and/or such special knowledge or competence.

- (j) "Rule" means any rule, regulation, or other written directive of general application duly adopted by the Board.
- (k) "State" means any state of the United States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, and Guam.
- (l) "Republic" means the Republic of Palau.
- (m) As used in these "Rules and Procedures", "The Board of Accountancy" and "The Board of Accounting" are synonyms.

#### SECTION 4

Reserved

#### SECTION 5

### QUALIFICATIONS FOR A CERTIFICATE AS A CERTIFIED PUBLIC ACCOUNTANT

- (a) The certificate of "certified public accountant" shall be granted to persons of good character who meet the education, experience and examination requirements of the following subsections of this Section and who make application therefor pursuant to Section 6 of these rules and procedures.
- (b) Good character for purposes of this Section means lack of a history of dishonest or felonious acts. The Board may refuse to grant a certificate on the ground of failure to satisfy this requirement only if there is a substantial connection between the lack of good character of the applicant and the professional responsibilities of a licensee and if the finding by the Board of lack of good character is supported by clear and convincing evidence. When an applicant is found to be unqualified for a certificate because of a lack of good character, the Board shall furnish the applicant a statement containing the findings of the Board, a complete record of the evidence upon which the determination was based, and a notice of the applicant's right of appeal.

(c) The education requirement for a certificate, which must be met before an applicant is eligible to apply for the examination prescribed in subsection (d), shall be as follows:

- (1) During the 10-year period immediately following the effective date of this Rule, a baccalaureate degree or its equivalent conferred by a college or university acceptable to the Board, with an accounting concentration or equivalent as determined by Board rule to be appropriate;
- (2) After the expiration of the 10-year period immediately following the effective date of this Rule, at least 150 semester hours of college education including a baccalaureate or higher degree conferred by a college or university acceptable to the Board, the total educational program to include an accounting concentration or equivalent as determined by Board rule to be appropriate.

(d) The examination required to be passed as a condition for the granting of a certificate shall be in writing, shall be held twice a year, and shall test the applicant's knowledge of the subjects of accounting and auditing, and such other related subjects as the Board may specify by rule. The time for holding such examination shall be fixed by the Board and may be changed from time to time. The Board shall prescribe by rule the methods of applying for and conducting the examination, including methods for grading papers and determining a passing grade required of an applicant for a certificate provided, however, that the Board shall to the extent possible see to it that the grading for the examination, and the passing grades, are uniform with those applicable in all other states. The Board may make such use of all or any part of the Uniform Certified Public Accountant Examination and Advisory Grading service of the American Institute of Certified

Public accountants and may contract with third parties to perform such administrative services with respect to the examination as it deems appropriate to assist it in performing its duties hereunder.

(e) An applicant shall be required to pass all sections of the examination provided for in subsection (d) in order to qualify for a certificate. If in a given sitting of the examination an applicant passes two or more but not all sections, then the applicant shall be given credit for sections that the applicant has passed and need not sit for reexamination in those sections, provided that--

- (1) the applicant wrote all sections of the examination at the sitting;
- (2) the applicant attained a minimum grade of 50 on each section not passed at that sitting;
- (3) the applicant passes the remaining sections of the examination within six consecutive examinations given after the one at which the first sections were passed;
- (4) at each subsequent sitting at which the applicant seeks to pass any additional sections, the applicant writes all sections not yet passed; and
- (5) in order to receive credit for passing additional sections in any such subsequent sitting, the applicant attains a minimum grade of 50 on sections written but not passed on such sitting.

(f) An applicant shall be given credit for any and all sections of an examination passed in another state if such credit would have been given, under then applicable requirement, if the applicant had taken the examination in this Republic.

- (g) The Board may in particular cases waive or defer any of the requirements of subsections (e) and (f) regarding the circumstances in which the various sections of the examination must be passed, upon a showing that, by reason of circumstances beyond the applicant's control, the applicant was unable to meet such requirement.
- (h) The Board may charge, or provide for a third party administering the examination to charge, each applicant a fee, in an amount prescribed by the Board by rule, for each section of the examination or reexamination taken by the applicant.
- (i) An applicant for initial issuance of a certificate under this Section shall show that the applicant has had two years of experience in the practice of public accountancy or its equivalent, under the direction of a licensee meeting requirements prescribed by the Board by rule.

## **SECTION 6**

### **ISSUANCE OF CERTIFICATE**

- (a) The Board shall grant certificates to persons who make application and demonstrate their qualifications, including where applicable the qualifications prescribed by Section 5, are in accordance with this Section.
- (b) The certificate issued under the Section shall be perpetual; However, before the holder of a certificate is permitted to practice as a CPA in this state, that person must also hold a current permit to practice issued under Section 7 of these Rules and Procedures.
- (c) The Board shall issue a certificate to a holder of a certificate, license, or permit issued by another state upon a showing that--

- (1) The applicant passed the examination required for issuance of the applicant's certificate with grades that would have been passing grades at the time in this Republic;
  - (2) The applicant--
    - (A) meets all current requirements in this Republic for issuance of a certificate at the time application is made.
  - (3) The applicant has had experience in the practice of public accountancy meeting the requirements of Section 5(i).
- (d) The Board shall charge a fee for the application for a certificate under this Section in an amount prescribed by the Board. Applications for such certificate shall be made in such form as the Board shall specify.
- (e) Applicants for initial issuance or renewal of certificates under this Section shall in their applications list all states in which they have applied for or hold certificates, licenses, or permits, and each holder of or applicant for a certificate under this Section shall notify the Board in writing, within 30 days after its occurrence, of any issuance, denial, revocation, or suspension of a certificate, license or permit by another state.
- (f) The Board shall issue a certificate to a holder of a foreign designation, granted in a foreign country entitling the holder thereof to engage in the practice of public accountancy, provided that:
- (1) The foreign authority which granted the designation makes similar provision to allow a person who holds a valid certificate issued by this state to obtain such foreign authority's comparable designation; and
  - (2) The foreign designation:

- (A) was duly issued by a foreign authority that regulates the practice of public accountancy and the foreign designation has not expired or been revoked or suspended;
- (B) entitles the holder to issue reports upon financial statements; and
- (C) was issued upon the basis of educational, examination, and experience requirements established by the foreign authority or by law; and

(3) The applicant:

- (A) received the designation, based on educational and examination standards substantially equivalent to those in effect in this Republic, at the time the foreign designation was granted;
- (B) completed an experience requirement, substantially equivalent to the requirement set out in Section 5(i), in the jurisdiction which granted the foreign designation or has completed five years of experience in the practice of public accountancy in this Republic; or meets equivalent requirements prescribed by the Board by rule, within the ten years immediately preceding the application; and
- (C) passed a uniform qualifying examination in national standards [and an examination on the laws, regulations and code of ethical conduct in effect in this Republic] acceptable to the Board.

(g) An applicant under subsection (f) shall in the application list all jurisdictions, foreign and domestic, in which the applicant has applied for or holds a designation to practice public accountancy, and each holder of a certificate



issued under this subsection shall notify the Board in writing, within thirty days after its occurrence, of any issuance, denial, revocation or suspension of a designation or commencement of a disciplinary or enforcement action by any jurisdiction.

- (h) The Board has the sole authority to interpret the application of the provision of subsections (f) and (g).

## **SECTION 7**

### **FIRM PERMITS TO PRACTICE**

- (a) The Board shall grant or renew permits to practice public accountancy to firms that make application and demonstrate their qualifications therefor in accordance with the following subsections of this Section.
- (b) Permits shall be initially issued and renewed for periods of not more than one year but in any event expiring on December 31 following issuance or renewal. Applications for permits shall be made in such form, and in the case of applications for renewal, between such dates as the Board may by rule specify, and the Board shall grant or deny any such application no later than 60 days after the application is filed in proper form. In any case where the applicant seeks the opportunity to show that issuance or renewal of a permit was mistakenly denied or where the Board is not able to determine whether it should be granted or denied, the Board may issue to the applicant a provisional permit, which shall expire ninety days after it's issuance or when the Board determines whether or not to issue or renew the permit for which application was made, whichever shall first occur.
- (c) An applicant for initial issuance or renewal of a permit to practice under this Section shall be required to show that each partner, officer, or shareholder who

regularly works in this State, holds a valid certificate issued under Section 6 of these Rules and Procedures or that each other partner, officer, or shareholder holds a certificate and is licensed to practice public accountancy in some other state.

- (d) For initial issuance or renewal of a permit to practice under this Section an applicant shall show that the applicant has completed 120 hours of continuing professional education which contribute to the general professional competence of the applicant during a three-year period with a minimum of twenty hours each year. The Board may prescribe by rule the content, duration and organization of continuing professional education courses that qualify for this requirement. The Board may also provide by rule for prorated continuing professional education requirements to be met by applicants whose initial certificates were issued substantially less than three years prior to the renewal date of this permit to practice.

## **SECTION 8**

**Reserved**

## **SECTION 9**

### **APPOINTMENT OF MINISTER OF STATE AS AGENT**

Application by a person or a firm not a resident of the Republic of Palau for a certificate under Section 6 of this Rules and Procedures or a permit to practice under Section 7 shall constitute appointment of the Minister of State as the applicant's agent upon whom process may be served in any action or proceeding against the applicant arising out of any transaction or operation connected with or incidental to the practice of public accountancy by the applicant within the Republic of Palau.

## **SECTION 10**

**Reserved**

**SECTION 11** Reserved

**SECTION 12** Reserved

**SECTION 13** Reserved

**SECTION 14** Reserved

**SECTION 15, 16, 17, 18** Reserved

**SECTION 19**

**LICENSEES' WORKING PAPERS; CLIENT'S RECORDS**

- (a) All statements, records, schedules, working papers, and memoranda made by a licensee or a partner, shareholder, officer, director, or employee of a licensee, incident to, or in the course of, rendering services to a client in the practice of public accountancy, except the reports submitted by the licensee to the client and except for records that are part of the client's records, shall be and remain the property of the licensee in the absence of an express agreement between the licensee and the client to the contrary. No such statement, record, schedule, working paper, or memorandum shall be sold, transferred, or bequeathed, without the consent of the client or the client's personal representative or assignee, to anyone other than one or more surviving partners or stockholders or new partners or stockholders of the licensee, or any combined or merged firm or successor in interest to the licensee. Nothing in this Section should be construed as prohibiting any temporary transfer of workpapers or other material necessary in the course of carrying out qualify reviews.
- (b) A licensee shall furnish to his client or former client, upon request and reasonable notice--

- (1) A copy of the licensee's working papers, to the extent that such working papers include records that would ordinarily constitute part of the client's records and are not otherwise available to the client; and
  - (2) Any accounting or other records belonging to, or obtained from or on behalf of, the client that the licensee removed from the client's premises or received for the client's account; the licensee may make and retain copies of such documents of the client when they form the basis for work done by the licensee.
- (c) Nothing herein shall require a licensee to keep any workpaper beyond the period prescribed in any other applicable statute.

## SECTION 20

### PRIVITY OF CONTRACT

- (a) This Section applied to all causes of action of the type specified herein filed on or after the effective date.
- (b) This Section governs any action based on negligence brought against any accountant or firm of accountants practicing in this Republic by any person or entity claiming to have been injured as a result of financial statements or other information examined, compiled, reviewed, certified, audited or otherwise reported or opined on by the defendant accountant or in the course of an engagement to provide other public accountancy services.
- (c) No action covered by this Section may be brought unless:
  - (1) The plaintiff (1) is issuer (or successor of the issuer) of the financial statements or other information examined, compiled, reviewed, certified, audited or otherwise reported or opined on by the defendant and (2)

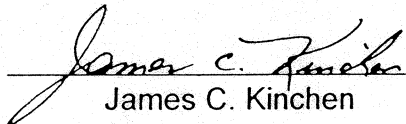
engaged the defendant accountant to examine, compile, review, certify, audit or otherwise report or render an opinion on such financial statements or to provide other public accountancy services; or

- (2) The defendant accountant or firm: (1) was aware at the time the engagement was undertaken that the financial statements or other information were to be made available for use in connection with a specified transaction by the plaintiff who was specifically identified to the defendant accountant, (2) was aware that the plaintiff intended to rely upon such financial statements or other information in connection with the specified transaction, and (3) has direct contact and communication with the plaintiff and expressed by words or conduct the defendant accountant's understanding of the reliance on such financial statements or other information.

**SECTION 21, 22, 23**

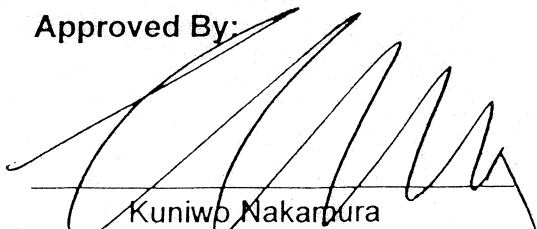
**Reserved**

**Adopted By:**

  
James C. Kinchen  
Chairman  
Board of Accounting  
Republic of Palau

8-22-95  
Date

**Approved By:**

  
Kuniwo Nakamura  
President  
Republic of Palau

8-23-95  
Date