

SUNSET EVALUATION UPDATE
PUBLIC ACCOUNTANCY
Chapter 466, Hawaii Revised Statutes

A Report to the Governor and the Legislature of the State of Hawaii

Submitted by
Legislative Auditor of the State of Hawaii
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FOREWORD

Under the "Sunset Law," licensing boards and commissions and regulated programs are terminated at specific times unless they are reestablished by the Legislature. Hawaii's Sunset Law, or the Hawaii Regulatory Licensing Reform Act of 1977, scheduled for termination 38 licensing programs over a six-year period. These programs are repealed unless they are specifically reestablished by the Legislature. In 1979, the Legislature assigned the Office of the Legislative Auditor responsibility for evaluating each program prior to its repeal.

This report updates our sunset evaluation of the regulation of public accountancy under Chapter 466, Hawaii Revised Statutes, which was conducted in 1983. It presents our findings as to whether the program complies with the Sunset Law and whether there is a reasonable need to regulate public accountancy to protect public health, safety, or welfare. It includes our recommendation on whether the program should be continued, modified, or repealed. In accordance with Act 136, SLH 1986, draft legislation intended to improve the regulatory program is incorporated in this report as Appendix B.

We acknowledge the cooperation and assistance extended to our staff by the Board of Public Accountancy, the Department of Commerce and Consumer Affairs, and other officials contacted during the course of our examination. We also appreciate the assistance of the Legislative Reference Bureau which drafted the recommended legislation.

Office of the Legislative Auditor
State of Hawaii

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SUNSET EVALUATION UPDATE PUBLIC ACCOUNTANCY

This report evaluates the regulation of the practice of public accountancy under Chapter 466, Hawaii Revised Statutes, to determine whether the health, safety, and welfare of the public is best served by reenactment, modification, or repeal of the statute. An evaluation of the regulation of public accountancy was previously conducted by this office and our findings and recommendations were reported in January 1983 in the *Sunset Evaluation Report, Public Accountancy, Chapter 466, Hawaii Revised Statutes*. This update summarizes the information presented in the 1983 evaluation, reports on developments since then, and presents our current findings and recommendations.

Background on Public Accountancy and Its Regulation

Accounting is the process of collecting, preparing, analyzing, and verifying financial data and reports to provide financial information for decisionmaking. There are four major fields: management accounting, government accounting, internal auditing, and public accounting. Management accountants work for private firms, handling their financial affairs which may include the preparation of budget documents and financial reports. Government accountants are involved in financial management, budget administration, or examination of the financial records of government agencies and those private organizations that are subject to government review. Internal auditors evaluate financial systems, especially the adequacy of a firm's internal controls for providing accurate financial data and protection against fraud. Public accountants provide services to the general public for a fee. They work as proprietors, employees, or partners of independent accounting firms. This report focuses on public accountants as they are the only accountants being regulated by the State.

Public accountants fall into two categories: (1) the certified public accountant (CPA), and (2) the public accountant (PA). Nationally, there are about 317,000 CPAs and about 22,000 PAs.¹ In Hawaii there are 1695 CPAs and 96 PAs. Of this total of 1791 CPAs and PAs, 1069 hold current permits to practice and are licensed to practice public accountancy.²

For the most part, both CPAs and PAs perform the same services and have similar legal rights, duties and obligations. CPAs differ from PAs in having met more rigorous education and

experience requirements and having completed successfully the uniform CPA examination administered by the American Institute of Certified Public Accountants (AICPA). The PA category generally refers to those public accountants who were not CPAs but were grandfathered in at the time statutes to regulate public accounting were enacted in the various states. Most states no longer license PAs beyond those who were grandfathered.

CPAs usually concentrate in one of three major areas of public accounting: (1) auditing, (2) tax services, and (3) management advisory services. Auditing involves the examination of a client's financial records and statements and expressing an opinion on whether the financial statements fairly represent the financial condition of a firm. This is known as the "attest" function. Tax services involve the application of tax laws in such a manner as to allow a client the maximum financial benefits. Management advisory services involve consulting and advising clients on a variety of matters such as accounting systems and cash management.

Accountants achieved professional status in 1896 when New York State passed the initial law regulating accountancy by establishing the title of CPA and requiring the successful completion of a CPA examination.³ Today, CPAs are licensed and regulated in all 50 states.⁴ Anyone offering services to the public as a CPA must obtain a certificate and a license or a permit from the applicable state board of accountancy.

Most states regulate public accountancy by restricting the use of the title of "CPA" or "PA" to those who have met standards for certification. Others who are not licensed may provide similar accounting, bookkeeping, and tax services so long as they do not represent themselves as CPAs or PAs.

Most states also restrict the audit or attest function to licensed CPAs and PAs. The attest function is the main basis for the regulation of CPAs. Consumers, such as investors and creditors, rely on the accuracy and reliability of audited financial statements to make financial decisions. The purpose of licensing is to ensure that only those who are professionally qualified are permitted to express an opinion on financial statements. In practice, the regulation of public accountancy is extended to other services offered to the public by licensees using the title of CPA or PA.

Federal regulation of financial reporting was initiated following the overvaluation of company assets, financial failures, and the stock market crash of 1929. The Securities and Exchange Act of 1934 requires issuers of securities registered on national securities exchanges to file annual reports with the Securities and Exchange Commission (SEC). The SEC requires these financial statements to be audited by independent accountants who are registered or licensed to practice

as CPAs or PAs under the laws of the jurisdiction where they reside. In addition, for the most part, federal agencies require contract auditors performing government audits to be state licensed CPAs and PAs.

To a large extent, the profession has been allowed to regulate itself. This regulation is provided by the largest professional association, the American Institute of Certified Public Accountants (AICPA). The AICPA has become the standard setting body for the accounting profession through its numerous pronouncements on accounting and auditing which are known as “generally accepted auditing standards” (GAAS) and “generally accepted accounting principles” (GAAP). The GAAS and GAAP are the technical standards for the accounting profession which are to be followed in performing an audit and in presenting financial information.

The GAAS can be described as the benchmarks to be used by accountants when exercising their judgment on the application of auditing procedures. They are minimum standards that must be satisfied during the conduct of the audit to ensure the quality of the audit performance.

The GAAP are the standards by which accountants measure the fairness of financial reporting. The GAAP provides guidance to accountants on the treatment of accounting transactions and in determining the format to be used in presenting financial information.

The AICPA still issues the GAAS but since 1973, GAAP has been issued by the Financial Accounting Standards Board (FASB). The FASB was established in response to government pressure for an independent board for initiating accounting principles. It is separate from the AICPA and is composed of both accountants and members from the business community who are outside of the accounting profession.

Federal and state authorities recognize GAAS and GAAP as standards for the profession and these pronouncements provide the fundamental basis for regulating audits. In addition, the U.S. General Accounting Office (GAO) has promulgated government auditing standards. These auditing standards issued by GAO are broader in scope than GAAS and are published in the “Standards for Audit of Governmental Organizations, Programs, Activities, and Functions.” The GAO standards incorporate much of the GAAS but require a report on internal controls and a report on compliance with laws and regulations in addition to an opinion on financial statements. Also, the federal agencies involved in the banking and financial institutions areas have implemented accounting and reporting requirements that differ in certain respects from GAAP.

In the mid-1970s the nation’s major accounting firms came under heavy criticism from the SEC and the U.S. Congress. The SEC filed court and administrative charges against most of the

major CPA firms for failure to detect and disclose improper accounts for overseas bribes and other questionable accounting practices. The SEC had documented evidence of improper accounting methods, generally in connection with major business failures or businesses in serious financial difficulty such as in the case of Lockheed.

During the late 1970s, the regulatory and standard-setting process for CPAs was probed by legislative investigation subcommittees. Hearings by the Senate Subcommittee on Reports, Accounting and Management, chaired by the late Senator Lee Metcalf, found an alarming lack of independence and dedication to public protection in the major accounting firms.⁵ The “Metcalf Report” also criticized the SEC for delegating its responsibilities for accounting standards to special interest groups.

Following the congressional hearings in the late 1970s, the AICPA took several steps towards self-reform, including improving audit procedures and establishing a self-regulatory organization to implement a peer review program. Under this program, the work of CPA firms that practice before the SEC is reviewed at least once every three years.

Although the AICPA took action towards self-reform in the late 1970s, the CPA profession has come under fire again in the 1980s. Between 1985 and 1988, the GAO issued five reports dealing with problems and deficiencies related to CPA audit quality for government audits. In one report the GAO found that CPAs did not satisfactorily comply with professional standards on 34 percent of the government audits performed.⁶

Again in the 1980s, the regulatory and standard-setting systems for CPAs were examined during legislative hearings by the U.S. Congress. In some cases the hearings questioned the significant number of corporations and financial institutions that failed after receiving a clean CPA opinion. These hearings focused on the role of the SEC and other government regulatory organizations and whether the existing AICPA self-regulatory system was adequate to protect the public. Other hearings focused on problems with the quality of governmental audits. An accounting professor testified at one of the hearings that nothing had really changed since the 1976 hearings except the dates and the particulars.

While the accounting profession, led by the AICPA, attempted to defend the effectiveness of the self-regulatory process, the AICPA did agree that there was a considerable difference between what the public thinks the CPA profession should be doing and what the profession sees as its responsibilities for performance. The AICPA, in an effort to close this “expectation gap,” issued nine new statements on auditing standards in four major areas.⁷ The AICPA responded to the demand for improved self-regulation by issuing these and other new audit and professional standards. In addition, the AICPA has agreed to work more closely with federal audit agencies on substandard auditing.

Regulation in Hawaii. Public accountancy in Hawaii is regulated by a nine-member board consisting of five CPAs, two registered PAs and two public members. The Board of Accountancy regulates two classes of accountants, PAs and CPAs. However, the PAs are a group who will continue to decline in numbers, eventually leaving only CPAs to be licensed and regulated. PAs were those who met the experience requirements established in Act 259, SLH 1955, which allowed them to be grandfathered under the law as a PA.

To qualify for a CPA certificate, a person must meet the following requirements: obtain a bachelor's degree with a concentration in accounting; complete 30 additional semester hours of study; pass the national CPA examination; pass an open book examination on Chapter 466, HRS and applicable rules; and meet specified accounting experience requirements. The experience requirements for CPA certification are: (1) 1,500 chargeable hours of auditing using GAAP and GAAS; or (2) two years of public accounting experience.

An applicant has an option to substitute an additional 30 months of public accounting experience for the 30 semester hours beyond the baccalaureate degree. In other words, instead of the 30 hours plus 2 years public accounting experience an applicant can qualify for licensing by obtaining 4 1/2 years of public accounting experience.

Findings and Recommendations in the 1983 Sunset Evaluation Report

Our sunset evaluation of the regulation of public accountancy in 1983 concluded as follows:

- “1. Continued government regulation of auditing is warranted to protect the public from the economic harm that might result from incompetent or substandard auditing and the rendering of unreliable opinions on financial statements.
- “2. Other public accounting services, however, do not present the same severity of potential harm, and no regulation is needed over such services as tax preparation, estate planning, and management services. Regulation should focus only on the audit function.
- “3. The standards for certification and licensing of CPAs here in Hawaii are higher than those in any other state in the nation. The requirement that CPA candidates must have 30 semester hours of education beyond the bachelor's degree creates hardship for applicants with no discernible benefits.
- “4. The effectiveness of regulating auditing and the attest function could be improved by implementing a positive enforcement program whereby the work products of public accountants can be reviewed for incompetent or substandard performance.”

The need for regulation. We found that licensure was necessary to restrict the use of the title of CPA or PA to those who had met certain competency standards for the practice of public accountancy. This was warranted to ensure that only licensed professionals could legally perform the attest function.

It is generally acknowledged that the attest or audit function is the field of public accounting that should be regulated and the need to control the attest function is the primary basis for regulation. Consumers, such as lenders and investors, rely on independent CPAs and PAs to verify the financial condition of a firm.

Nationally, in the 1970s, there were numerous incidents of poor auditing practices that resulted in economic harm to the public. Even with licensing, the public has been injured by substandard performance of the attest function by accountants. However, the potential for substandard auditing practices is lessened by establishing state licensure requirements that auditors meet minimum standards of competency and that opinions are rendered in accordance with professional standards and procedures. In order to protect the public against substandard audits, we recommended that the State continue to regulate the audit function and restrict the performance of the function to CPAs and PAs who are licensed by the State.

The focus of regulation. We found that while there was a need to restrict and regulate the audit function, the regulation of other accounting services and those who provide them was not required. Other non-audit services, such as the preparation of tax returns, estate planning, and financial advice, are offered by individuals and firms not regulated in any manner without any evidence of harm to consumers.

There were a large number of CPAs who were not engaged in auditing but maintained their licensure status so they could use their CPA title in their non-audit practice. State regulation of the activities of such persons in their non-audit services was not necessary. We recommended that the focus of regulation should be on auditing and that professional experience and continuing education requirements should be specified in auditing.

Licensing and other regulatory requirements. The failure to focus on the audit function led to licensing requirements that did not pertain directly to competency in auditing. Also, some of the requirements were unreasonable and restrictive.

CPA certification and permit to practice. We found that the minimum requirements for obtaining a CPA certificate and permit to practice included a baccalaureate degree, 30 additional semester hours, passing the uniform CPA examination and meeting experience requirements. Taken as a whole, these requirements were the most restrictive entry standards in the nation.

Thirty additional hours. While the educational requirements for CPA certification varied from state to state, Hawaii was the only state that required an additional 30 semester hours of study beyond the baccalaureate degree.

There were no discernible benefits from Hawaii being the only state requiring the additional 30 hours of study. The primary impact was the added cost and hardship for CPA candidates. The 30-hour requirement also resulted in various personnel problems for CPA firms. We recommended that the additional 30-hour requirement be eliminated.

Experience. Almost all states require varying degrees of experience. In Hawaii, the experience requirement was: (1) 1,500 chargeable hours of performing audits, or (2) two years of public accounting practice or two years of equivalent experience.

We concluded that the experience requirement was more closely related to competency and recommended that the requirement should be specified as auditing experience.

Continuing professional education. The AICPA, in 1971, began promoting mandatory continuing professional education (CPE) as a requirement for CPA license renewal. Over 30 states had CPE requirements and Hawaii had followed the AICPA recommendation of 40 hours a year or 80 hours of CPE for the biennial renewal of permits to practice.⁸

We concluded that the state had an interest in specifying a certain number of hours of CPE in auditing or accounting because of the potential economic harm that could result from substandard auditing practices. We recommended that the State limit the CPE requirements to education in accounting and auditing.

Non-practice related requirements. We found that applicants for certification had to comply with two non-practice related requirements. One involved the relatively meaningless exercise of requiring the applicant to find three friends to sign a "Certificate of Moral Character" form. The other requirement related to an application question concerning prior criminal convictions. We recommended that the law be amended to delete the requirement that applicants be of good moral character.

Positive enforcement program. Positive enforcement programs entail reviewing the actual work done by CPAs and PAs for conformity with accounting principles and auditing standards. Positive enforcement programs had the full support of the National Association of State Boards of Accountancy (NASBA) which recommended that a formalized program of positive enforcement be adopted in all jurisdictions.⁹ The NASBA had developed a positive enforcement manual for state boards of accountancy to use in implementing such a program.

Positive enforcement programs were being conducted in a dozen states, and other states were in the process of implementing such programs. The results of positive enforcement in certain states indicated the need for peer review.

Major accounting firms in Hawaii already had implemented a comparable peer review program. We concluded, however, that a positive enforcement program in accordance with the NASBA guidelines should be instituted by the board on a systematic basis for all CPAs and PAs. We recommended that the Hawaii Board of Accountancy with the assistance of the Hawaii Society of Certified Public Accountants proceed to implement a positive enforcement program.

Complaints. There were relatively few complaints filed with the Board of Accountancy. Several of these were complaints against non-CPAs and non-PAs who had used the term “accounting” or “accountant” in advertisements or in their business cards.

The board took the position that the use of these terms might confuse the public and therefore violated the statutes. In these cases, letters of admonishment were sent to individuals using these terms.

We questioned the board’s position that the use of these generic terms violated the statutes and questioned whether the board had the authority to issue the letters of admonishment. We concluded that the public was not endangered by non-audit accounting services and recommended that the practice of investigating cases involving the use of such generic terms and the sending of letters of admonishment be terminated.

Comments and responses to the report. The board agreed with our recommendation to eliminate the 30 additional hours of education beyond the baccalaureate degree and to cease sending letters of admonishment or investigating cases involving the use of generic terms such as accounting or accountant by non-licensed persons. The board also endorsed our recommendation that it implement a positive enforcement program although it expressed concerns about obtaining funding for such a program.

The board disagreed with our recommendations that the audit function should be the focus of regulation and the experience and continuing education requirements. A basic disagreement was over the extent to which the state should regulate accounting practices which do not involve auditing. The board felt that other areas needed to be regulated as well. As a result, the board also disagreed with our recommendations that experience and continuing education requirements should be related to auditing and accounting as a condition for licensure.

The Department of Commerce and Consumer Affairs agreed that the board should dispense with the requirement that applicants be of good moral character. The department also agreed with our recommendation to delete the 30 additional semester hour requirement. However, contrary to the board’s response, the department did not agree with our recommendation that it cease investigating complaints and sending letter of admonishment to unlicensed persons using the terms “accountant” or “accounting” to describe their services.

Subsequent Developments

Following the submission of our sunset report, hearings were held during the 1983 legislative session to determine whether Chapter 466 should be reenacted, modified, or repealed. The board, the Hawaii Society of Certified Public Accountants (HSCPA), and others in the profession testified in support of continued licensing.

The HSCPA had appointed a committee to develop an official position regarding educational and experience requirements. The HSCPA advocated retaining the 30 additional semester hours but including an option whereby an applicant would be able to substitute an additional three years of public accounting experience for the 30 hours. The Board of Accountancy joined the HSCPA in supporting the 30-hour requirement and suggested that the law be amended to provide for the alternative of three additional years of public accounting experience.

During the legislative hearings, the House Consumer Protection Committee supported the proposal to require an additional three years experience as a substitute for the 30 additional hour requirement. The Senate Consumer Protection Committee, however, amended the proposed legislation by decreasing the experience requirement from three years to two years. A compromise was reached during conference committee meetings to require an additional 30 months of experience.

In addition to adding the experience requirement option, Act 295, SLH 1983, deleted the requirement that a candidate be of good moral character and substituted the requirement of having a reputation for competence, trustworthiness, and fairness.

Current Findings and Recommendations

Our current findings are as follows:

1. There remains a significant potential for economic harm from incompetent or substandard auditing and financial reporting.
2. While continued regulation is warranted, the regulation should focus on the audit function. This can best be accomplished by implementing a positive enforcement program whereby the work products of public accountants can be reviewed for incompetent or substandard performance.
3. The minimum standards of education and experience for certification and licensing of CPAs in Hawaii are higher than those in any other state in the nation. These restrictive entry requirements create hardship with no discernible benefits to the public.

The need for regulation. All 50 states regulate public accountancy. Most states restrict the use of the titles “CPA” and “PA” and regulate the audit function.

It is generally acknowledged that the attest or audit function is the field of public accounting that should be regulated. The attest function is the expression of an opinion on the fairness and reliability of information presented by business entities in their financial statements. In 1983, we quoted from a report on regulating the accounting profession that stated: "The state's only interest is in protecting third parties--bankers, investors, and the public--from incompetent or fraudulently prepared financial documents. Control over the expression of professional opinions on financial statements, or the attest function, is the sole basis for the entire regulatory structure."¹⁰

The public has been injured in the past by incompetent or substandard performance of the attest function by accountants. Consumers, such as lenders and investors, rely on independent CPAs and PAs to verify the financial condition of a firm applying for a loan or offering its stock for sale. There is evidence of a continued need for regulation.

In our 1983 sunset report, we discussed a fraud case involving the Equity Funding Corporation of America which clearly illustrated the economic harm to the public resulting from substandard attestation of financial reports. Although the corporation's financial statements had been audited annually by CPA firms, fraudulent financial schemes which were not detected had resulted in the corporation's assets being overstated by about \$185 million. Instead of a net worth of \$145 million, the company was in fact in the red by about \$40 million.¹¹

The three CPA firms which audited Equity Funding were sued by the trustee of the corporation. A study of the case by two officials of the U.S. GAO concluded that the fraud should have been uncovered had the auditors faithfully followed generally accepted auditing procedures.¹² The same conclusion was reached by an AICPA Special Committee on Equity Funding.¹³

In the 1970s, there were many similar incidents of poor auditing practices. The accounting profession came under heavy criticism from the U.S. Congress and the SEC. The SEC filed charges against almost all the major CPA firms for failure to detect corporate slush funds for overseas bribes and for overlooking instances of fudged books. Congress raised questions about the effectiveness of self-regulation by the profession and considered imposing more federal regulatory requirements. However, the AICPA was allowed to adopt tougher professional standards and increase its scope of regulatory activities.

During the 1980s, the CPA professional has again come under scrutiny for substandard audit services. Again, extensive federal congressional hearings were held to examine such major issues as the effectiveness of the profession's self-regulation and enforcement activities; the adequacy

of the professional standard-setting process; the degree to which the SEC has delegated its regulatory power to private groups; and the effectiveness of the AICPA peer review and disciplinary system.

The most comprehensive examination was conducted by the House Subcommittee on Oversight and Investigations and the House Committee on Energy and Commerce, which were chaired by Congressman John Dingell.¹⁴ The Dingell hearings, held during a period from February 20, 1985 to June 23, 1986, were in response to the large number of business failures that had occurred after independent auditors had given unqualified opinions.

During the hearings, several persons were critical of the standard-setting system. One noted critic of the accounting profession stated that nothing had really changed except the dates and particulars since the earlier investigation in 1976. He also testified that “the central dilemma is the enormous gap between the public understanding, or the public mythology regarding the audit and the auditor’s responsibility, and the practical realities.”¹⁵ Another official argued that the current system of having 50 state boards of accountancy was inefficient and that a federal board of accountancy should be created to issue national CPA certificates.¹⁶

The accounting profession, lead by the AICPA, attempted to defend the performance of CPAs. The AICPA stated that several actions had been taken, but it agreed that there continued to be a considerable difference between what the public expects and what the profession sees as its responsibilities for performance.

In an effort to close this “expectation gap,” the AICPA through its Auditing Standards Board has issued nine new Statements on Auditing Standards in four major areas:¹⁷

- (1) Detection of fraud and illegal acts.
- (2) More effective audits.
- (3) Improved external communications.
- (4) Improved internal communications.

The new standards should help. However, it is evident that regulation must be continued to protect consumers. Since auditors verify the financial condition of an entity on the basis of samples and tests of financial records and transactions, they do not guarantee the accuracy of financial statements. Rather, they render an opinion whether the financial statements present fairly the financial position of the entity. However, reliance can be placed on the opinion only when generally accepted auditing standards and procedures are applied properly. The application of these standards is a process that requires experienced and informed judgment. State licensure is needed to provide the assurance that auditors have acquired the minimum standards of competency to render opinions upon which other parties rely.

In order to protect the public against substandard audits, the State must continue its regulation of the audit function and restrict the performance of the function to CPAs and PAs who are licensed by the State.

Positive enforcement program. The board should implement a positive enforcement program to focus regulation on the attest function and the preparation of financial reports and other financial statements that are used in making decisions by third parties. The board must ensure that professional standards are being followed when CPAs and PAs issue such reports and statements.

A positive enforcement program will enable the board to regulate the competency of auditing by reviewing the work performed by CPAs and PAs for conformity with accounting principles and auditing standards. Positive enforcement programs have the full support of the National Association of State Boards of Accountancy (NASBA), and it has developed a positive enforcement manual for state boards of accountancy to use in implementing such a program. The manual provides instructions on all aspects of a positive enforcement program.

In our first review, we noted that the board had a copy of the NASBA manual and recommended that the board solicit the assistance of the HSCPA to implement a positive enforcement program. The board endorsed our recommendation that it implement a positive enforcement program but was concerned about funding for such a program.

Although the board has taken the position that a positive enforcement program would improve the regulation of auditing, it has not implemented such a program for a number of reasons.

The board has formed a committee as well as an ad hoc committee consisting of board members and HSCPA members. The board has drafted proposed rule changes related to a positive enforcement program. The board has also drafted proposed statutory amendments to specify the authority to establish such a program.

Recently, the HSCPA requested that the board delay any plans to implement a positive enforcement program because the AICPA has announced plans to establish a national peer review program. Participation in this program will be a requirement for membership in the AICPA and accordingly will only apply to AICPA members. This program is still in the planning stages, but the HSCPA has asked the board to delay any action on the positive enforcement program because the HSCPA does not want to be involved with two different programs.

We believe that the board needs to move ahead on its own with a positive enforcement program to protect the public in Hawaii from substandard auditing. The AICPA program will only be applicable to its membership. All Hawaii CPAs are not AICPA members.

Currently, a total of 20 states have a positive enforcement program in effect. The programs are filling a need. Fifteen of the states with a positive enforcement program in operation in 1986 reported that only 48 percent of the approximately 3,600 reports reviewed were acceptable. Thirty percent were found to be marginal and 22 percent substandard.¹⁸ For this reason and the reasons previously stated, the board should move forward in implementing a positive enforcement program for Hawaii.

Licensing and other regulatory requirements. We found in the first review that the lack of focus in regulating only the audit function had resulted in licensing requirements that did not pertain directly to competency in auditing. Some of the requirements were also overly restrictive.

CPA certification and permit to practice. In 1983, the minimum requirements for obtaining a CPA certificate and permit to practice included a baccalaureate degree, 30 additional semester hours, passing the uniform CPA examination, and meeting specified experience requirements. Taken as a whole, these requirements were the most restrictive entry standards in the nation.

Act 295, SLH 1983, provided an option whereby an applicant would be able to substitute an additional 30 months experience for the 30 semester hours. These current requirements continue to be the most restrictive entry standards in the nation.

The AICPA began promoting the need for a five-year education program in the early 1970s. It recommended the additional year of education in lieu of professional experience requirements. These recommendations were incorporated into the AICPA's model accountancy bill. Following the AICPA's recommendations, Hawaii's accountancy law was amended to require 30 additional hours of education and to delete a one-year experience requirement, effective January 1, 1979.

The CPA profession in Hawaii had supported the additional educational requirement because it was expected that most states would follow the AICPA recommendation and adopt the 30-hour requirement. However, this did not happen. In 1983, Hawaii was the only state to require 30 semester hours of study beyond the baccalaureate degree. We concluded that this requirement was both unnecessary and unfair to residents of Hawaii. In addition, the experience requirement was reinstated in 1980 as (1) 1,500 chargeable hours of performing audits, or (2) two years of public accounting practice or two years of substantially equivalent experience.

Currently, the minimum requirements for licensure as a CPA are a baccalaureate degree, 30 additional semester hours, passing the uniform CPA examination and meeting the experience requirements of 1,500 chargeable hours of performing audits or two years of public accounting practice. Thirty months of additional public accounting practice may be substituted for the 30 semester hours to meet the minimum licensing requirements. This means that an applicant could qualify for licensure with 4 1/2 years of public accounting experience without the 30 additional semester hours.

The current licensing requirements taken as a whole are still the most restrictive entry standards in the nation. The states of Florida, Utah and Tennessee now require an additional 30 semester hours.¹⁹ However, Utah and Tennessee require only one year of public accounting experience and Florida has no experience requirement for applicants who have the 30 additional hours.

The primary impact of the additional 30 hours continues to be added cost and hardship for CPA candidates. Students who wish to become a CPA find that they must forego employment for at least an additional year or take extended periods of leave without pay, or work full time while trying to take the courses at night. These problems can delay applicants from acquiring their CPA certificates for several years. For CPA firms, the 30-hour requirement has resulted in recruitment, manpower utilization, and work scheduling problems. Undoubtedly, the cost of all of this is passed on to the public.

There appear to be few benefits to balance these costs. The 30 additional hours of study do not have to be in auditing or accounting. Consequently, the requirement does not necessarily promote competency in auditing and attestation. There is no evidence that people in other states are endangered by the absence of this requirement or that people in Hawaii are better protected. The only benefit of the 30 additional hours that proponents point to is that it should result in more dedicated and better rounded individuals. However, state regulation for the purpose of developing more dedicated or better rounded individuals is not justifiable, desirable as this may be.

We are aware that the AICPA has adopted the requirement that after the year 2000, applicants for AICPA membership must have at least 150 college-level semester hours including a baccalaureate degree or its equivalent. One of the reasons given for this requirement is to enhance the profession's image. Since there is no evidence that people in the other 46 states have been harmed by the absence of this requirement, we believe that the 30 additional semester hours of study should be eliminated together with the option of substituting 30 additional months of experience.

Experience. Almost all states require experience. The number of years may vary depending on the educational level attained. A majority of the states require two years of public accounting experience for those applicants who have a baccalaureate degree.

The experience requirement is closely related to competency as it requires an individual to actually work under the supervision of a licensed CPA or PA and to develop the ability to apply formal education to actual audit situations before being granted a license to practice.

We believe that the public will be adequately protected by the requirements for a baccalaureate degree and two years of public accounting practice or 1500 chargeable hours of performing audits. This is comparable to 40 of the other 49 states, where the experience requirement for an applicant with a baccalaureate degree is two years or less.²⁰

Continuing professional education. The AICPA in 1971 began promoting mandatory continuing professional education (CPE) as a requirement for CPA license renewal. Nebraska became the first state to establish the requirement for CPE in 1971.²¹ New Jersey recently became the 47th state to pass CPE requirements.²²

Act 158, SLH 1973, required CPAs and PAs to comply with CPE requirements of the board as a prerequisite for obtaining their practice permits. Like most states, Hawaii followed the AICPA recommendation of 40 hours of CPE a year. The current *biennial* requirement is for 80 hours of CPE for renewal of permits to practice.

The rules adopted by the board define CPE generally as a “formal program of learning which will contribute directly to the professional competence of a licensee in public practice.” Detailed requirements concerning CPE are spelled out in the rules. The board amended the rules effective June 8, 1984 to require 16 of the 80 CPE hours to be in accounting or auditing. After the board adopted this requirement, there were many complaints from licensees who provide only non-audit services. The licensees, especially those who only provide taxation services, felt the revision was inappropriate. The board voted to amend the applicable sections to delete the requirement for 16 CPE hours pertaining to auditing or accounting.

We continue to find it reasonable and desirable to specify a certain number of CPE hours in auditing or accounting as a requirement for license renewal. It is important to ensure that CPAs and PAs are keeping up with changes in auditing standards and accounting principles, but the state need not require CPE in other fields. We understand that the CPE requirements in various business fields contribute to the professional image of CPAs and PAs, but the State need not be involved in activities that do not endanger consumers. The CPAs and PAs who wish to keep up with other aspects of public accountancy should do so on their own.

Recommendations

We recommend the following:

1. *Chapter 466, HRS, be reenacted to protect the public from economic harm by restricting the performance of auditing to those who are licensed as CPAs and PAs. In reenacting the statute, the Legislature should consider amending Chapter 466, HRS, to delete the 30 semester hours of additional study beyond the baccalaureate and the option to substitute 30 months of experience for*

the 30 hours. Also, Chapter 466, HRS, should be amended to require continuing professional education to be in accounting related and auditing related subjects.

2. The board proceed to implement a positive enforcement program to focus regulation on the attest function or auditing.

NOTES

1. U.S. Bureau of Labor Statistics, *Occupational Outlook Handbook, 1988-1989*, Washington, Government Printing Office April 1988, p. 14.
2. Statistical data provided by Kathy Yokouchi, Executive Secretary, Board of Public Accountancy, Department of Commerce and Consumer Affairs, as of November 15, 1988.
3. James Don Edwards, *History of Public Accounting in the United States*, Alabama, University of Alabama Press, 1978, p. 45.
4. National Association of State Boards of Accountancy, *Digest of State Accountancy Laws and State Board Regulations*, New York, NY, 1987-1988.
5. U.S. Congress, Senate, Subcommittee on Reports, Accounting and Management, *The Accounting Establishment, A Staff Study*, Washington, D.C., December 7, 1976, pp. III-V.
6. U.S. General Accounting Office, Report to the Chairman, Legislation and National Security Subcommittee, Committee on Government Operations, House of Representatives, *CPA Audit Quality, Many Governmental Audits Do Not Comply With Professional Standards*, GAO/AFMD 83-33, March 1986, p. 20.
7. "Official Releases," *Journal of Accountancy*, July 1988, pp. 144-197, and Dan M. Guy and Jerry D. Sullivan, "The Expectation Gap Auditing Standards," *Journal of Accountancy*, April 1988, pp. 36-46.
8. Hawaii, Legislative Auditor, *Sunset Evaluation Report, Public Accountancy, 466, Hawaii Revised Statutes*, Report No. 83-6, Honolulu, January 1983, p. 22.
9. *Ibid.*, pp. 23, 24.
10. *Ibid.*, p. 16.
11. *Ibid.*, p. 16.
12. *Ibid.*, pp. 16, 17.
13. *Ibid.*, p. 17.

14. U.S., Congress, House, Hearings Before the Subcommittee on Oversight and Investigations and the Committee on Energy and Commerce, *SEC and Corporate Audits* (Part 1) 99th Cong., 1st sess., February 20 and March 6, 1985, (Part 2) 99th Cong. 1st sess., April 2 and 17, 1985; (Part 3) 99th Cong. 1st sess., June 19, July 15, 19 and September 11, 1985; (Part 4) 99th Cong. 1st sess., November 4, 1985, November 7 and December 16, 1985; (Part 5) 99th Cong. 2nd sess., April 10, 24 and 28, 1986; (Part 6) 99th Cong. 2nd sess., June 19 and 23, 1986.
15. U.S., Congress, House, Hearings Before the Subcommittee on Oversight and Investigations and the Committee on Energy and Commerce, *SEC and Corporate Audits* (Part 1) 99th Cong. 1st sess., February 20 and March 6, 1985, p. 72.
16. *Ibid.*, pp. 727-729.
17. "Official Releases," Guy and Sullivan, "The Expectation Gap."
18. National Association of State Boards of Accountancy, *The State Board Report*, April 1988, p. 2.
19. National Association of State Boards of Accountancy, *Digest*.
20. *Ibid.*
21. Hawaii, Legislative Auditor, *Sunset Evaluation Report*, p. 22.
22. National Organization for Competency Assurance, "New Jersey Enacts Continuing Education Provision," *Professional Regulation News*, May 1988, pp. 3-4.

APPENDICES

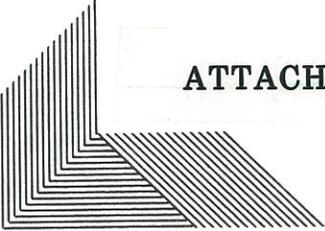
APPENDIX A

COMMENTS ON AGENCY RESPONSE

A preliminary copy of this Sunset Evaluation Report was transmitted on November 30, 1988, to the Board of Public Accountancy and the Department of Commerce and Consumer Affairs for their review and comments. A copy of the transmittal letter to the board is included as Attachment 1 of this Appendix. A similar letter was sent to the department. The response from the board is included as Attachment 2. Since the report had no recommendations for the department, it did not respond to the report.

The board agrees with our recommendation to implement a positive enforcement program. It says that other than the certifying of candidates, the materialization of such a program is the board's main focus.

The board disagrees with our recommendations to delete the 30 additional hours of education beyond the baccalaureate degree and to require continuing education courses to be in accounting and auditing-related subjects. The board sees its current requirements as increasing the general knowledge of accountants.



ATTACHMENT 1

THE OFFICE OF THE AUDITOR
STATE OF HAWAII
465 S. KING STREET, RM. 500
HONOLULU, HAWAII 96813

CLINTON T. TANIMURA
AUDITOR

C O P Y

November 30, 1988

Mr. Robert A. Alm, Director
Department of Commerce and Consumer Affairs
State of Hawaii
1010 Richards Street
Honolulu, Hawaii 96813

Dear Mr. Alm:

Enclosed are three preliminary copies, numbered 14 through 16, of our *Sunset Evaluation Update, Public Accountancy*.

The report contains our recommendations relating to the regulation of public accountancy. If you have any comments on our recommendations, we would appreciate receiving them by December 30, 1988. Any comments we receive will be included as part of the final report which will be submitted to the Legislature.

Since the report is not in final form and changes may be made to it, we request that you limit access to the report to those officials whom you wish to call upon for assistance in preparing your comments. Please do not reproduce the report. Should you require additional copies, please contact our office. Public release of the report will be made solely by our office and only after the report is published in its final form.

We appreciate the assistance and cooperation extended to us by your office.

Sincerely,



Clinton T. Tanimura
Legislative Auditor

Enclosures

ATTACHMENT 2

JOHN WAIHEE
GOVERNOR



ROBERT A. ALM
DIRECTOR

NOE NOE TOM
LICENSING ADMINISTRATOR

BOARD OF PUBLIC ACCOUNTANCY

STATE OF HAWAII
PROFESSIONAL & VOCATIONAL LICENSING DIVISION
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
P. O. BOX 3469
HONOLULU, HAWAII 96801

December 20, 1988

RECEIVED

DEC 23 8 13 AM '88

OFFICE OF THE AUDITOR
STATE OF HAWAII

Mr. Clinton T. Tanimura
Legislative Auditor
Office of the Legislative Auditor
165 South King Street, Room 500
Honolulu, HI 96813

Dear Mr. Tanimura:

Thank you for the opportunity to comment on the Sunset Evaluation Report on Public Accountancy. We commend your office for this report and for the time spent to prepare this evaluation.

We would like to address your recommendations as follows:

"delete the 30 semester hours of additional study beyond the baccalaureate and the option to substitute 30 months of experience for the 30 hours."

While we appreciate your comments in this area, we would like to note that we disagree with the negative conclusion made that these requirements were established to restrict entry into the profession, to add cost and hardship for CPA candidates, and "to enhance the profession's image."

The AICPA's Uniform CPA Examination is the only method of measurement of the overall knowledge of CPA candidates which is nationally required and recognized. All other requirements, such as experience and understanding of state laws, differ among all 50 states. The result of the Uniform CPA Examination is the single most important and objective

3-14
Mr. Clinton T. Tanimura
Page Two
December 20, 1988

mean to determine an applicant's qualifications. It ensures that a candidate has acquired at least a minimum level of knowledge in accountancy which is necessary to enter the field. In its 1986 issue of "CPA Candidate Performance on the Uniform CPA Examination," the National Association of State Boards of Accountancy (NASBA) stated:

"A candidate with an advanced degree can usually expect to achieve superior examination performance. In May 1986, 35% of the first-time candidates with advanced degrees earned passing scores on all parts of the examination and 67% earned passing scores in at least one subject. For those with baccalaureate degrees only, the corresponding success rates were 19% and 49% respectively, and for those without such a degree, only 11% and 38% were successful. Similar relationships were found in the November 1986 administration."

The 1987 report has similar result. These statistics were obtained from annual surveys of all the examinations with an average of 70,000 candidates sitting for each examination. It is of interest to recognize that Hawaii has been listed as one of the jurisdictions whose candidates performed most successfully. In the November 1986 examination, Hawaii ranked number 5 for first-time candidates passing all four subjects. In 1985, Hawaii ranked 14th. In terms of first-time candidates passing at least one subject, Hawaii ranked 6th in the May 1986 examination and 8th in the November 1986 examination.

The 30 semester hours are limited to certain subjects which were designed to add depth to the applicant's understanding of business-related subjects. The accountant of today must converse with clients in a wide range of businesses. They must be knowledgeable in many areas because they do not simply "keep the books" anymore. They must analyze, recommend, advise and act as consultants in many of their clients' financial undertakings. The subjects for the additional 30 semester hours of upper division or graduate-level study are limited to accounting and auditing, taxation, management services, computer science, economics, business law, functional fields of business, e.g., finance, production, marketing, etc., and other business-related subjects as approved by the Board.

The consumer can benefit from this knowledge and only rarely does a company pay for an applicant's tuition which

Mr. Clinton T. Tanimura
Page Three
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may be passed on to the consumer. The majority of applicants rely on personal financial means. For those who are unable to meet this cost, they must learn from additional years of experience. The post-baccalaureate education has received wide acceptance by the majority of the members of the AICPA. The demands on the profession have increased so dramatically that a neophyte must come into the profession well-equipped if the person expects to compete.

Although the time needed to obtain the additional education, whether through formal training or through experience, may take additional years, the consumer ultimately benefits. The decisions made by a person with additional information and experience would be sounder than if it were made by the same person with less information and experience.

"require continuing professional education to be in accounting related and auditing related subjects."

The field of accountancy goes beyond accounting and auditing. There are many firms who have specialists in taxation, consulting, etc. which require the constant attendance of seminars to keep abreast with complex federal laws in taxation and other areas and their subsequent amendments. It would be an unnecessary and time-consuming burden to require accounting and auditing courses which are very costly and which are of questionable worth since the knowledge will not have any practical application.

The Board of Public Accountancy has carefully thought through this matter and have concluded that each accountant should have the freedom to choose the course which is most beneficial to his practice, as long as it falls within the business-related subjects listed in Chapter 71, Hawaii Administrative Rules, and is board-approved. The Board, however, will dictate those courses which it feels would benefit the practitioner should a peer review reveal areas of substandard work.

"proceed to implement a positive enforcement program to focus regulation on the attest function or auditing."

We too acknowledge the desire for a formal, well thought out positive enforcement program. Other than the actual certifying of candidates, the Board's main focus is on the materialization of such a program.

Mr. Clinton T. Tanimura
Page Four
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We would like to extend our appreciation for allowing us the opportunity to respond to your report which was constructive and informative. The support you and your staff have given the Board in seeking its continuance is greatly appreciated.

Sincerely,

Walter T. Y. Lau

Walter T. Y. Lau, Chairman
State Board of Public Accountancy

APPENDIX B

DIGEST

A BILL FOR AN ACT RELATING TO PUBLIC ACCOUNTANCY

Reenacts the law regulating Public Accountancy. Deletes the educational requirement of 30 semester hours of additional study beyond the baccalaureate and the option to substitute 30 months of experience for the 30 semester hours. Amends the continuing education requirement to consist of accounting and auditing related subjects.

(To be made one and ten copies)

HOUSE OF REPRESENTATIVES
FIFTEENTH LEGISLATURE, 1989
STATE OF HAWAII

H. B. NO.

A BILL FOR AN ACT

RELATING TO PUBLIC ACCOUNTANCY.

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

1 SECTION 1. Section 26H-4, Hawaii Revised Statutes, is
2 amended to read as follows:

3 "§26H-4 Repeal dates. (a) The following chapters are
4 hereby repealed effective December 31, 1989:

- 5 (1) Chapter 444 (Contractors License Board)
6 (2) Chapter 448E (Board of Electricians and Plumbers)
7 (3) Chapter 464 (Board of Registration of Professional
8 Engineers, Architects, Surveyors and Landscape
9 Architects)
10 [(4) Chapter 466 (Board of Public Accountancy)
11 (5)] (4) Chapter 467 (Real Estate Commission)
12 [(6)] (5) Chapter 439 (Board of Cosmetology)
13 [(7)] (6) Chapter 454 (Mortgage Brokers and Solicitors)
14 [(8)] (7) Chapter 454D (Mortgage and Collection Servicing
15 Agents)

16 (b) The following chapter and sections are hereby repealed
17
18

1 effective December 31, 1990:

- 2 (1) Chapter 466J (Board of Radiologic Technology)
- 3 (2) Sections 321-13 to 321-15 (midwives, laboratory
- 4 directors, laboratory technologists, laboratory
- 5 supervisors, laboratory technicians, tattoo artists,
- 6 electrologists, and sanitarians)

7 (c) The following chapters are hereby repealed effective

8 December 31, 1991:

- 9 (1) Chapter 447 (Dental Hygienists)
- 10 (2) Chapter 453 (Board of Medical Examiners)
- 11 (3) Chapter 457 (Board of Nursing)
- 12 (4) Chapter 458 (Board of Dispensing Opticians)
- 13 (5) Chapter 460J (Pest Control Board)
- 14 (6) Chapter 462A (Pilotage)
- 15 (7) Chapter 438 (Board of Barbers)
- 16 (8) Chapter 468K (Travel Agencies)

17 (d) The following chapters are hereby repealed effective

18 December 31, 1992:

- 19 (1) Chapter 448H (Elevator Mechanics Licensing Board)
- 20 (2) Chapter 451A (Board of Hearing Aid Dealers and Fitters)
- 21 (3) Chapter 457B (Board of Examiners of Nursing Home
- 22 Administrators)
- 23
- 24

1 (4) Chapter 460 (Board of Osteopathic Examiners)

2 (5) Chapter 461 (Board of Pharmacy)

3 (6) Chapter 461J (Board of Physical Therapy)

4 (7) Chapter 463E (Podiatry)

5 (e) The following chapters are hereby repealed effective
6 December 31, 1993:

7 (1) Chapter 437 (Motor Vehicle Industry Licensing Board)

8 (2) Chapter 437B (Motor Vehicle Repair Industry Board)

9 (3) Chapter 440 (Boxing Commission)

10 (4) Chapter 446 (Debt Adjusters)

11 (5) Chapter 436E (Board of Acupuncture)

12 (f) The following sections are hereby repealed effective
13 December 31, 1993:

14 (1) Sections 445-21 to 38 (Auctions)

15 (2) Sections 445-131 to 136 (Pawnbrokers)

16 (3) Sections 445-171 to 172 (Secondhand Dealers)

17 (4) Sections 445-231 to 235 (Scrap Dealers)

18 (g) The following chapters are hereby repealed effective
19 December 31, 1994:

20 (1) Chapter 441 (Cemetery and Funeral Trusts)

21 (2) Chapter 443B (Collection Agencies)

22 (3) Chapter 452 (Board of Massage)

H. B. NO.

1 (4) Chapter 455 (Board of Examiners in Naturopathy)

2 (5) Chapter 459 (Board of Examiners in Optometry)

3 (6) Chapter 442 (Board of Chiropractic Examiners)

4 (7) Chapter 373 (Commercial Employment Agencies)

5 (8) Chapter 448 (Board of Dental Examiners)

6 (9) Chapter 465 (Board of Psychology)

7 (10) Chapter 468E (Speech Pathology and Audiology)

8 (h) The following chapter is hereby repealed effective
9 December 31, 1995:

10 (1) Chapter 466 (Board of Public Accountancy)

11 [(h)] (i) The following chapters are hereby repealed
12 effective December 31, 1997:

13 (1) Chapter 463 (Board of Private Detectives and Guards)

14 (2) Chapter 471 (Board of Veterinary Examiners)."

15 SECTION 2. Section 466-5, Hawaii Revised Statutes, is
16 amended to read as follows:

17 "§466-5 Certificate of certified public accountant. (a)
18 [Issuance.] A person (1) who has attained eighteen years of age,
19 (2) who has a reputation for competence, trustworthiness, and
20 fairness, (3) who meets the educational and examination
21 requirements [hereinafter] provided in this section, and (4) who
22 meets the experience requirement [hereinafter] provided in this
23
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H. B. NO.

1 section [shall], upon application to the board, shall be issued a
2 certificate of "certified public accountant". The board shall
3 maintain a list of all persons to whom [such] these certificates
4 are issued. [Such] The certificates shall be effective for a
5 period not exceeding two years and shall be renewable biennially
6 upon application to the board.

7 (b) [Educational requirements.] A person applying for a
8 certificate of certified public accountant [(1)] before
9 January 1, 1979, shall be required to have obtained a
10 baccalaureate degree conferred by a college or university
11 recognized by the board[, or (2)]. A person applying for a
12 certificate of certified public accountant after December 31,
13 1978, shall:

14 [(A)] (1) Obtain a baccalaureate degree conferred by a
15 college or university recognized by the board; and

16 [(B)] (2) Complete the study of accounting and related
17 courses as the board by rule deems appropriate[; and

18 (C) Complete not less than thirty semester hours of study
19 in addition to those semester hours required for a
20 baccalaureate degree at a college or university
21 recognized by the board. The person may commence the
22 additional hours of study required by this subparagraph
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1 prior to obtainment of a baccalaureate degree but only
2 after the completion of one hundred five semester hours
3 towards the baccalaureate degree. The content of the
4 additional hours of study shall be determined by rules
5 adopted pursuant to chapter 91].

6 (c) [Exemption from educational requirements.] A person[:]

7 who:

8 (1) [Who holds] Holds a current registration as a public
9 accountant under section 466-6; [or]

10 (2) [Who:

11 (A)] Holds and has continued to hold a valid
12 certificate of certified public accountant of
13 another state for a period of not less than ten
14 years preceding the date of the person's
15 application under this section and has been in the
16 active practice of public accountancy in one or
17 more states for a period of not less than five
18 years preceding the date of the application under
19 this section; or

20 [(B)] (3) The board determines, met the educational
21 requirements of this State for a certificate of
22 certified public accountant as they existed when
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1 the person was originally issued a certificate of
2 certified public accountant by the other state;
3 [shall,] upon application to the board and demonstration that the
4 continuing education requirements established by rule of the
5 board have been satisfied, shall be exempt from the educational
6 requirements of subsection (b).

7 (d) [Experience requirement.] A person applying for a
8 certificate of certified public accountant shall be required to:

9 (1) Complete one thousand five hundred chargeable hours in
10 the performance of audits involving the application of
11 generally accepted accounting principles and generally
12 accepted auditing standards; or

13 (2) Complete two years of professional experience in public
14 accounting practice. Representation of satisfaction of
15 the experience requirement by an applicant for a
16 certificate of certified public accountant and by any
17 of the applicant's employers shall be submitted to the
18 board under oath.

19 (e) [Examination requirements.] A person applying for a
20 certificate of certified public accountant shall be required to
21 have satisfactorily completed an examination in accounting,
22 auditing, and such other related subjects as the board shall
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1 determine to be appropriate. [Such] The examination shall be
2 held by the board and shall take place as often as the board
3 shall determine to be desirable, but not less frequently than
4 once each year.

5 (f) [Admission to examination.] A person [(1)] who [has]:

6 (1) Has met the applicable educational requirements
7 prescribed in subsection (b) [of this section, or (2)
8 who has];

9 (2) Has not met all of the requirements prescribed by
10 subsection [(b)(2) of this section] (b) but who expects
11 to meet the requirements of [subsections (b)(2)(A) and
12 (b)(2)(B)] subsection (b)(1) and (2) [of this section]
13 within one hundred twenty days following the
14 examination prescribed in subsection (e)[, or (3) who
15 is];

16 (3) Is exempted from [such] educational requirements by
17 subsection (c)[, shall,];

18 upon application to the board, shall be admitted to [such] the
19 examination.

20 An applicant who has been admitted to the examination
21 pursuant to [subsection (f)(2)] paragraph (2) will not receive
22 any conditional credit pursuant to subsection (g) for any portion
23
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1 of the examination, unless the applicant completes all of the
2 educational requirements of [subsections (b)(2)(A) and (b)(2)(B)]
3 subsection (b)(1) and (2) within one hundred twenty days
4 following the examination. An applicant admitted to the
5 examination pursuant to [subsection (f)(2),] paragraph (2), who
6 satisfactorily completes the entire examination, will not be
7 entitled to receive a certificate of certified public accountant
8 unless[:

9 (1) The] the applicant completes the educational
10 requirements of [subsections (b)(2)(A) and (b)(2)(B)]
11 subsection (b)(1) and (2) within one hundred twenty
12 days following the examination[; and

13 (2) The applicant completes the educational requirements of
14 subsection (b)(2)(C) within a time period following the
15 examination which shall be established by the board by
16 rules promulgated pursuant to chapter 91].

17 (g) [Re-examination.] The board [may] by [regulation] rule
18 may prescribe the terms and conditions under which an applicant
19 who has taken the examination described in subsection (e), but
20 who has not satisfactorily completed that examination, may be
21 given credit for any part thereof that the applicant has
22 satisfactorily completed. The board may also provide by
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1 [regulation] rule for a reasonable waiting period for an
2 applicant to apply for re-examination.

3 (h) [Exemption from examination requirements.] A person
4 [(1) who is] who:

5 (1) Is the holder of a valid certificate of certified
6 public accountant issued under the laws of another
7 state[, or (2) who is];

8 (2) Is the holder of a valid certificate, license, or
9 degree in a foreign country determined by the board to
10 be [(A) a]:

11 (A) A recognized qualification for the practice of
12 public accountancy in such other country[, (B)
13 comparable];

14 (B) Comparable to a certificate of certified public
15 accountant of this State[, and (C) issued]; and

16 (C) Issued to such person on the basis of an
17 examination comparable to the examination
18 described in subsection (e)[, shall,];

19 upon application to the board, shall be exempt from the
20 examination requirements specified in subsection (e).

21 (i) [Existing certificate holders.] A person who, on
22 January 1, 1974, holds a certificate of certified public
23

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1 accountant issued under the laws of this State theretofore
2 existing shall not be required to obtain an additional
3 certificate of certified public accountant under this chapter,
4 but shall otherwise be subject to all the provisions of this
5 chapter; and such a certificate theretofore issued [shall], for
6 all purposes, shall be considered a certificate issued under this
7 chapter and subject to the provisions hereof.

8 [(j) A person applying for a certificate of certified public
9 accountant after December 31, 1983, shall be allowed the option
10 of electing to replace the requirements of subsection (b)(2)(C)
11 with an additional thirty months of professional experience in a
12 public accounting practice.]"

13 SECTION 3. Section 466-7, Hawaii Revised Statutes, is
14 amended by amending subsection (a) to read as follows:

15 "(a) [Biennial practice permits.] A person [(1) who is]
16 who:

17 (1) Is holding a current certificate of certified public
18 accountant or a current registration as a public
19 accountant [and (2) who has]; and

20 (2) Has complied with continuing education requirements in
21 accounting and auditing related subjects as established
22 by rule of the board, [shall,] upon application to the
23 board, shall be issued a permit to practice public
24

