

**[PRC PROFESSIONAL REGULATORY BOARD OF
ACCOUNTANCY RESOLUTION NO. 88, S. 2009, July
28, 2009]**

**ADOPTION OF THE RULES AND REGULATIONS FOR THE
IMPLEMENTATION BY THE PROFESSIONAL REGULATORY BOARD
OF ACCOUNTANCY OF THE QUALITY ASSURANCE REVIEW
PROGRAM**

WHEREAS, among the powers and functions of the Board under Article II, Sec. 9 (h) of Republic Act No. 9298, the Philippine Accountancy Act of 2004 is "To conduct an oversight into the quality of audits of financial statements through a review of the quality control measures instituted by auditors in order to ensure compliance with accounting and auditing standards and practices";

WHEREAS, the Board is also mandated under Article II, Sec. 9 (g), of Republic Act No. 9298, the Philippine Accountancy Act of 2004, "To monitor the conditions affecting the practice of accountancy and adopt such measures, including promulgation of accounting and auditing standards, rules and regulations and best practices as it may be deemed proper for the enhancement and maintenance of high professional, ethical, accounting and auditing standards: *Provided*, That domestic accounting and auditing standards, rules and regulations shall include the international accounting and auditing standards, and generally accepted best practices";

WHEREAS, accounting and auditing standards and practices require among others compliance with the Philippine Standards of Auditing (PSA) No. 220, Quality Control for an Audit of Financial Statements, as well as with the Philippine Standards for Quality Control (PSQC) No. 1, Quality Control for Firms that perform Audits and Review of Financial Statements, and other Assurance and Related Services Engagement;

WHEREAS, on the international level, the Philippine Institute of Certified Public Accountants (PICPA), the duly Accredited Professional Organization (APO) of Certified Public Accountants in the Philippines is a member body of the IFAC and is bound by Statement of Membership Obligations (SMO) 1, paragraph 6 on Quality Assurance which states that, "Where government, regulators or other appointed authorities perform any of the functions covered in this Statement, member bodies should use their best endeavors to encourage those responsible for those functions to follow this SMO in implementing them, and assist them in that implementation where appropriate";

WHEREAS, after a judicious study, and consultation with various stakeholders in the accountancy profession, the Board has deemed it proper to promulgate Rules and Regulations for the Implementation by the Professional Regulatory Board of Accountancy of the Quality Assurance Review Program;

WHEREFORE, the Board resolves as it hereby resolves to adopt the document entitled, "Rules and Regulations for the Implementation by the Professional Regulatory Board of Accountancy of the Quality Assurance Review Program," marked as Annex "A" and made part hereof, which should be considered as part of the rules and regulations for the practice of accountancy in the Philippines.

This Resolution and its Annex "A" shall take effect after fifteen (15) days following their publication in the Official Gazette or in a major daily newspaper of general circulation in the Philippines, whichever is earlier.

(SGD.) EUGENE T. MATEO
Chairman

(SGD.) FROILAN G. AMPIL
Member

(SGD.) RUFO R. MENDOZA
Member

(SGD.) LUCILA C. TARIELA
Member

ATTESTED BY:

(SGD.) CARLOS G. ALMELOR
Secretary, Professional Regulatory Boards

APPROVED:

(SGD.) NICOLAS P. LAPEÑA, JR.
Chairman

(SGD.) RUTH RANA PADILLA
Commissioner

(SGD.) NILO L. ROSAS
Commissioner

Annex "A"

Rules and Regulations for the Implementation by the Professional Regulatory Board of Accountancy of the Quality Assurance Review Program

Pursuant to Sec. 9 (g) of Republic Act No. 9298, otherwise known as the "Philippine Accountancy Act of 2004," the Professional Regulatory Board of Accountancy hereby promulgates, subject to the approval of the Professional Regulation Commission, the following Rules and Regulations to carry out effectively the provisions of Sec. 9 (h) of the said Act relative to the "conduct of oversight into the quality of audits of financial statements."

RULE I TITLE AND DEFINITIONS

Section 1. These Rules and Regulations shall be known and cited as "Rules and Regulations for a QAR Program."

Section 2. Definition of Terms. Unless otherwise expressly provided, the following terms shall be understood to mean:

- a. *Accredited Professional Organization (APO)* – the recognized professional organization of certified public accountants (CPAs) duly recognized by both the Professional Regulation Commission (PRC) and the Board. The APO assists the Board in the implementation of the provisions of the Philippine relative to the practice of accountancy. The present APO for CPAs is the Philippine Institute of Certified Public Accountants (PICPA).
- b. *Audit Inspection Unit (AIU)* – refers to the auditors of the QAR Council.
- c. *Board* – refers to the Professional Regulatory Board of Accountancy.
- d. *CPA Practitioners* – the collective term used to denominate an individual CPA, Firm or Partnership of CPAs engaged in the practice of public accountancy in the Philippines.
- e. *Quality Assurance Review (QAR)* – a study, appraisal or review by the Board or its duly authorized representatives, of the quality of audit of financial statements through a review of the quality control measures instituted by CPA Practitioners engaged in the practice of public accountancy to ascertain compliance with prescribed professional, ethical and technical standards of public practice.

RULE II

THE QUALITY ASSURANCE REVIEW COUNCIL (QARC) AND THE AUDIT INSPECTION UNIT (AIU)

QUALITY ASSURANCE REVIEW COUNCIL (QARC)

Section 3. There is hereby created the Quality Assurance Review Council as an independent body subject only to the administrative supervision of the Board.

Section 4. Relationship between the Board and QARC. In the performance of its duties and responsibilities, the QARC should not in any manner considered as intruding into the statutory function of the Board under Sec. 9 (h) of Republic Act No. 9298, the Philippine Accountancy Act of 2004, "To conduct an oversight into the quality of audits of financial statements through a review of the quality control measures instituted by auditors in order to ensure compliance with accounting and auditing standards and practices." Neither should the Board be construed as having delegated any of its statutory functions to the QARC.

The QARC and the Board are independent of each other. While this may be so, the Board is not prohibited from utilizing the QARC as the informal entity by which the Board is enabled to perform its statutory mandate "to conduct oversight." The Board, as it may see fit may adopt the findings of fact of the QARC in the determination of whether any provision of these Rules and Regulations has been violated which would merit the imposition of sanctions and penalties.

Section 5. Composition of the Quality Assurance Review Council (QARC). The QARC is composed of a Chairman who preferably shall be the incumbent President of the Philippine Chamber of Commerce and Industry (PCCI) or someone

known with high integrity in the business sector, a Vice Chairman who is the Chairman of the Board or his designated alternate from any member of the Board and seven (7) members each of whom would be designated by the Securities and Exchange Commission, the Bangko Sentral ng Pilipinas, the Bureau of Internal Revenue, the Commission on Audit, the Insurance Commission, the Philippine Stock Exchange and the APO for Certified Public Accountants. *Provided*, That no member shall have financial interest or otherwise, directly or indirectly, in an audit firm that may be subject to the quality assurance review: *Provided, further*, That no member shall be related within the fourth civil degree of consanguinity or affinity with any sole practitioner, partner or staff member of any firm that is subject of the quality assurance review by the Council.

Section 6. *Term of Office of the QARC Members.* The Chairman and Vice Chairman shall serve a term that is co-terminus with his term as President or Chairman of the National Chamber of Commerce and Industry he represents and the Chairman or Member of the Board, respectively. Members shall have a term of three (3) years unless replaced earlier by the designating institutions.

Section 7. *Duties and Responsibilities of the QARC.* The duties and responsibilities of the QARC include:

- a. To promote, publicly and proactively, high quality external audits;
- b. Through its Audit Inspection Unit (AIU) to monitor the quality of audits;
- c. To hire the Chief Inspector of AIU;
- d. To recommend to the Board for approval the Quality Assurance Review (QAR) plan for the year, which may be approved by the Board without referral to the Commission;
- e. To implement the approved Quality Assurance Review (QAR) plan for the year through its Audit Inspection Unit (AIU);
- f. To obtain independent technical advice on the subject of quality assurance when needed and appropriate;
- g. To receive and evaluate the reports and recommendations of the AIU, and submit them to the Board for such action as may be necessary under the premises; including the imposition of administrative sanctions, in accordance with the Implementing Rules and Regulations to be promulgated in accordance with this Act, and the publication of the details of the violations to serve as a warning to the general public and to members of the accountancy profession;
- h. To give recommendations to the Board on how it may effectuate its statutory duty of oversight into the quality of audits of financial statements, as well as to recommend the imposition of appropriate disciplinary action in the instances where such is merited;
- i. To issue through the Board, annual reports for the benefit of the general public.

AUDIT INSPECTION UNIT (AIU)

Section 8. *The Audit Inspection Unit (AIU).* There is hereby created an Audit Inspection Unit which shall report to the QARC.

Section 9. *AIU Personnel.* The AIU is composed of a Head (the Chief Inspector), the Chief of Administration, Assistants to the Chiefs, Staff Auditors and such other

employees that may be necessary to carry out effectively the functions of the QARC. They shall be appointed by the QARC.

Section 10. *Term of Office of AIU Personnel.* The AIU Personnel shall enjoy security of tenure and may be removed only for the just and authorized causes recognized under the labor and other laws.

Section 11. *Qualifications of the Chief Inspector of the AIU.* To be eligible for appointment as Chief Inspector of the AIU, a person must have the following qualifications.

- a. Must have reached the level of senior manager or partner of a large accounting firm that has among its clients publicly listed companies;
- b. Must have at least ten (10) years audit experience;
- c. Must be of good moral character and has a current license as a CPA;
- d. Must not have been found guilty of violating any professional, ethical and regulatory auditing standards;
- e. Must have good oral and written communication skills, being especially adept at report writing.

Section 12. *Duties and Responsibilities of the Chief Inspector of the AIU.*

- a. Exercises administrative supervision and control over the AIU and over its personnel as its head;
- b. Assists the QAR Council in determining Quality Assurance policies;
- c. Prepares the QAR Review Plan for each year for submission to the QAR Council for approval;
- d. Selects the CPA Practitioners to be reviewed for the year, in accordance with the annual plan;
- e. Approves the specific inspection plan for each practitioner selected for review, which must set forth the nature, extent and timing of such work;
- f. Reviews and approves the individual inspection reports;
- g. Has the final authority to approve all inspection reports;
- h. Assists the QAR Council to prepare its Annual Report;
- i. Recommends to the QAR Council the appointment and termination from service of subordinate AIU personnel as well as appropriate disciplinary action to be taken;
- j. Provides for technical training of inspection personnel;
- k. Performs such duties and functions as the QAE Council may assign.

Section 13. *Appointment of the Chief Inspector and Chief of Administration, AIU.* The QAR Council appoints the Chief Inspector and the Chief of Administration.

Section 14. *Qualifications of the Chief of Administration, AIU.* To be eligible for appointment as Chief of Administration, a person must have the following qualifications:

- a. Must have reached the level of senior auditor in a large accounting firm;
- b. Must have at least five (5) years audit experience;
- c. Must be of good moral character and has a current license as a CPA;
- d. Must not have been found guilty of violating any professional, ethical and regulatory auditing standards;