

## **[ IC CIRCULAR NO. 29-2009, November 10, 2009 ]**

### **REVISED GUIDELINES ON ACCREDITATION OF AUDITING FIRMS AND EXTERNAL AUDITORS**

Pursuant to Section 414 of the Insurance Code and the existing provisions of the executed Memorandum of Agreement (hereinafter referred to as the MOA) dated 12 August 2009, binding the Insurance Commission (IC), the Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC), and the Professional Regulation Commission – Board of Accountancy (BOA) for a simplified and synchronized accreditation requirements for external auditors and/or auditing firms, this Commission has revised the rules and regulations that shall govern the accreditation and delisting of external auditors of covered institutions as follows:

*Sec. 1. Policy Statement.* – In order to further strengthen the regulatory framework of the IC and ensure integrity of audited financial statements, the following revised rules and regulations on the accreditation and delisting of external auditors and auditing firms are hereby adopted bearing in mind that high ethical and qualification standards and strict reporting obligations for external auditors of entities under its jurisdiction and supervision shall encourage quality control and disciplined financial environment.

*Sec. 2. Coverage.* – This Circular shall apply to the companies, as grouped below:

#### Group A

- a. Insurance companies
- b. Reinsurance companies
- c. Mutual Benefit Associations

#### Group B

- a. Insurance and reinsurance brokers
- b. General agents
- c. Trusts for charitable uses

*Sec. 3. Definition of Terms under this Circular*

3.1 External Auditor – means a single practitioner or a signing partner in an auditing firm.

3.2 Auditing Firm – includes a proprietorship, partnership, corporation (if any), or other legal entity, including any associated person of any of those entities, that is engaged in the practice of public accounting or

preparing/issuing audit reports.

3.3 Fraud – means an intentional act by one or more individuals among management, employees, or third parties, which may reduce the consolidated total assets of the company by five percent (5%). It may involve:

- a. Manipulation, falsification or alteration of records or documents;
- b. Misappropriation of assets;
- c. Suppression or omission of the effects of transactions from records or documents;
- d. Recording of transactions without substance;
- e. Intentional misapplication of accounting policies;
- f. Omission of material information.

3.4 Error – means an unintentional mistake in the financial statements which reduce the consolidated total assets of the company by five percent (5%). It may involve:

- a. Mathematical or clerical mistake in the underlying records and accounting data;
- b. Oversight or misinterpretation of facts; or
- c. Unintentional misapplication of accounting policies.

3.5 Gross negligence – means wanton or reckless disregard of the duty of due care in complying with Generally Accepted Auditing Standards.

3.6 Material information – information whose omission or misstatement could influence the economic decisions of users.

3.7 Audit Engagement Letter – document which confirms the auditor's acceptance of the appointment, the objective and scope of the audit, the extent of the auditor's responsibilities to the client and the form of any reports.

3.8 Signing Partner – the auditor-in-charge/concurring partner/partner-in-charge/managing partner who is responsible for signing the audit report on the consolidated financial statements of the audit client, and where relevant, the individual audit report of any entity whose financial statements form part of the consolidated financial statements.

3.9 Entities – shall include all companies under the jurisdiction of the IC.

#### *Sec. 4. Scope and Limitations of Accreditation*

4.1 Subject to the mutual recognition provision of the MOA and as implemented in this Circular, only external auditors and auditing firms duly accredited by IC shall be engaged by all the covered institutions detailed in Section 2 hereof.

Auditing firms that have been accredited by IC to audit covered entities under Section 2 – Group A hereof are automatically qualified to audit entities under Group B. Individual external auditors who have been accredited by IC are allowed to audit only covered entities under Group B.

4.2 The external auditor and/or auditing firm shall be changed or the signing partner shall be rotated every five years or less.

4.3 Covered entities which have engaged their respective external auditors and/or auditing firms for a consecutive period of five (5) years or more as of date of effectivity of this Circular shall have a one (1) year period from said date within which to either change their external auditors and/or auditing firm or to rotate the signing partner.

4.4 The partners and auditing firm (if applicable) must be both accredited by IC.

4.5 The accreditation of external auditors does not exonerate the reporting company or said auditors from their responsibilities. Financial statements filed with IC are still primarily the responsibility of the management of the reporting company and accordingly, the fairness of the representations made therein is an implicit and integral part of the issuer's responsibility. The independent certified public accountant's responsibility for the financial statements required to be filed with the IC is confined to the expression of his opinion, or lack thereof, on such statements which he has examined.

4.6 The IC shall not be liable for any damage or loss that may arise from the selection of said accredited external auditor and/or auditing firm to be engaged by a corporation for regular audit.

4.7 The accreditation of an external auditor and/or auditing firm shall expire or external auditor and/or auditing firm shall be automatically delisted after a period of three (3) years from date of approval of his/her accreditation, unless an application for the renewal thereof is filed not later than sixty (60) days before its expiration. Such accreditation is subject to IC continuous monitoring and periodic evaluation for possible delisting prior to expiration.

4.8 Pursuant to paragraph (5) of the MOA, SEC, BSP and IC shall mutually recognize the accreditation granted by any of them for external auditors and firms of Group C or D companies under SEC, Category B and C under BSP, and Group B under IC.

## *Sec. 5. Qualification Requirements*

### **5.1 Individual External Auditors or Partners**

#### **A. General Requirements**

- a. The individual applicant must be primarily accredited by the BOA.
- b. At the time of application, the external auditor shall have at least five (5) years experience in external audits. The audit experience must have been acquired as an in-charge, manager or partner or their equivalent.
- c. The applicant external auditor must have adequate established quality assurance procedures applicable to the type of entities that his/her accreditation shall cover. This must be reflected in his/her Manual and the financial statements of his/her audit clients.
- d. In addition to the basic screening procedures of the BOA in evaluating auditors' independence, the following are required to be submitted in the form of notarized certification that:
  - d.1 the external auditor or any member of his immediate family had or has not committed to acquire any direct or indirect financial interest in any of the entities specified in this Circular;
  - d.2 the external auditor has no loan to or from any entities specified or any officer, director or principal stockholder thereof;
  - d.3 the external auditor is not an employee, officer, director or consultant of any of the regulated entities of the IC and not appointed conservator, receiver or liquidator by the IC.
  - d.4 the external auditor shall preserve his/her working papers or any other related documents for a period of five (5) years and shall make available to IC representatives when required or directed to do so.

#### B. Specified Requirements

- a. No less than two (2) years of the five (5) years experience required under Section 5.1.A.b above must have been spent in auditing the type of entity covered under this Circular; or
- b. External auditors with five (5) years experience in regular audit but without experience in the field of insurance, attendance or participation of at least 40 hours in insurance/reinsurance accounting/auditing seminars conducted by the Insurance Institute for Asia and the Pacific (IIAP) or any other organization duly recognized by IC may be considered; and
- c. The applicant external auditor has sufficient knowledge on the regulatory requirements, operations and functions of specific companies for which he/she is applying for.

#### 5.2 Auditing Firm

- a. The auditing firm must be primarily accredited by the BOA and the name of the firm's applicant partners should appear in the attachment to the certificate of accreditation issued by the BOA. Additional partners of the firm shall be furnished by BOA to the concerned regulatory agencies (e.g. IC, BSP and SEC) as addendum to the firm's accreditation by BOA.
- b. At the time of application, it must have at least 1 signing partner who is already accredited, or who is already qualified and is applying for accreditation by IC;
- c. The firm must have adequately established quality assurance procedures applicable to the type of entities that his/her application shall cover. This must be reflected in the firm's Manual and the financial statements of its partners' audit clients.

*Sec. 6. Application by Individual External Auditors or Partners*

6.1 For *initial* accreditation, a duly accomplished and notarized application form (IC Form A) shall be submitted by the applicant external auditor, together with the following documents:

- a. Certified true copy of a valid and updated BOA Certificate of Accreditation;
- b. Proof of audit experience such as list of corporate clients showing engagement period;
- c. Copy of Quality Assurance Manual containing adequate audit procedures that will ensure full compliance with accounting and regulatory requirements and a written general description of the following:
  - i. Quality assurance process, such as, but not limited to client acceptance and retention policies, concurring partner review, consultation process, etc.;
  - ii. Procedure for monitoring professional ethics and independence from clients;
  - iii. Other quality assurance policies or procedures provided in Philippine Standards on Auditing No. 220, Philippine Standards on Quality control, and their amendments, or as maybe required by IC.
- d. A notarized undertaking of the external auditor that he/she is in compliance with the qualification requirements under Section 5.1.A.d hereof;
- e. Certificate of attendance or participation in seminars of at least 40 hours conducted by the IIAP or any other organization or association duly recognized by IC; and