WORLD BANK GROUP

ROSC

Report on the Observance of Standards and Codes on Accounting and Auditing

Republic of the Philippines

June 2017

Report No:

Standard Disclaimer:

Copyright Statement:

CONTENTS

Abbreviations and Acronyms iii
Preface v
Acknowledgements vi
Executive Summary vii

I. INTRODUCTION 1
Country Background 1
Approach 1
Economic Context 2
Corporate and Financial Sector 4
Linkage of the Assessment to the Philippines' Development Agenda 10

II. ASSESSMENT 12
A&A Standards 12
Institutional Framework for Corporate Financial Reporting 13
Observed Reporting Practices and Perceptions 53

III. STATUS OF POLICY RECOMMENDATIONS OF ROSC A&A 2006 56

IV. KEY FINDINGS AND AREAS FOR CONSIDERATION 58

ANNEX 1: SUMMARY OF PROGRESS ON ROSC 2006 RECOMMENDATIONS 66

ANNEX 2: INDEPENDENT AUDIT OVERSIGHT STRUCTURES WITHIN ASEAN 68

ANNEX 3: SIGNIFICANT FACTORS FOR THE EFFICIENT FUNCTIONING OF AUDIT OVERSIGHT 71
IFIAR Core Principles for Independent Audit Regulators 71
International Professional Requirements of IFAC 72

ANNEX 4: REQUIRED AUDITED FINANCIAL STATEMENTS BY AGENCY 73
Bureau of Internal Revenue Audit Requirements 73
Publicly Accountable Entities (including listed companies) Audit Requirements 73

Bank Audit Requirements.......... 74
Insurance Audit Requirements.......... 75

ANNEX 5: RELATED LAWS FOR ACCREDITATION OF EXTERNAL AUDITORS.......... 76
Board of Accountancy.......... 76
Bureau of Internal Revenue.......... 76
Securities and Exchange Commission.......... 76
Bangko Sentral ng Pilipinas.......... 77
Insurance Commission.......... 77
Cooperative Development Authority.......... 77

ANNEX 6: AUDITOR ACCREDITATION REQUIREMENTS OF VARIOUS AGENCIES.......... 78

ANNEX 7: ENFORCEMENT MEASURES AND ACTIONS BY REGULATORS OVER AUDITORS.......... 82
Securities and Exchange Commission.......... 82
Bangko Sentral ng Pilipinas.......... 82
Insurance Commission.......... 82
Professional Regulation Commission / Board of Accountancy.......... 83

ANNEX 8: ENVISIONED TWO-TIER CERTIFICATION PROCESS.......... 84

ANNEX 9: GEOMAPPING OF CPAS IN PUBLIC PRACTICE EDUCATION, COMMERCE AND INDUSTRY.......... 86
A. Enterprise to Auditor Ratio For Entities Required to Submit Audited Financial Statements to the Bureau of Internal Revenue.......... 86
B. Enterprise to Auditor Ratio For Entities Required to Submit Audited Financial Statements to the Securities and Exchange Commission.......... 88
C. Bangko Sentral ng Pilipinas Selected Auditors and Enterprises.......... 90
D. Insurance Commission Accredited Auditors and Enterprises.......... 92
E. Board of Accountancy – CPAs Accredited as Accounting Teachers.......... 94
F. Board of Accountancy – CPAs Accredited in Commerce and Industry.......... 96

ABBREVIATIONS AND ACRONYMS

AASC	Auditing and Assurance Standards Council
A&A	Accounting and Auditing
ACRA	Accounting and Corporate Regulatory Authority of Singapore
AFA	ASEAN Federation of Accountants
ASEAN	Association of South East Asian Nations
BIR	Bureau of Internal Revenue
BOA	Board of Accountancy
BSFIs	BSP-Supervised Financial Institutions
BSP	Bangko Sentral ng Pilipinas –Central Bank of the Philippines
CDA	Cooperative Development Authority
CHED	Commission on Higher Education
COA	Commission on Audit
CPA	Certified Public Accountant
CPD	Continuing Professional Development
DOF	Department of Finance
FDI	Foreign Direct Investment
FRSC	Financial Reporting Standards Council
FX	Foreign Exchange
FY	Financial Year
GCE	Government Corporate Entities
GCG	Governance Commission for GOCCs
GDP	Gross Domestic Product
GOCC	Government Owned and/or Controlled Corporation
GoP	Government of the Philippines
HMO	Health Maintenance Organization
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IC	Insurance Commission
IES	IFAC Education Standard
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRIC	IFRS Interpretations Committee

IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commission
ISA	International Standards on Auditing
LID	Legal and Investigation Division of PRC
MC	Memorandum Circular
MSME	Micro, Small and Medium Sized Enterprises
NCBA	New Central Bank Act
NEA	National Electrification Administration
OECD	Organization for Economic Co-operation and Development
PDP	Philippine Development Plan
PDEx	Philippine Dealing and Exchange Corporation
PFRS	Philippine Financial Reporting Standards
PICPA	Philippine Institute of Certified Public Accountants
PIE	Public Interest Entity
PPSAS	Philippine Public Sector Accounting Standards
PRC	Professional Regulation Commission
PSA	Philippine Standards on Auditing
PSE	Philippine Stock Exchange
PSQC	Philippine Standards on Quality Control
PSRS	Philippine Standard on Related Services
QAR	Quality Assurance Review
RA	Republic Act
ROSC	Report on the Observance of Standards and Codes
SEC	Securities and Exchange Commission
SME	Small and Medium Sized Enterprise
SMO	Statement of Membership Obligation
SMP	Small and Medium-size Practices
SOAR	SEC Oversight Assurance Review
SRC	Securities Regulation Code
SRO	Self-regulatory Organization

CURRENCY UNIT: PHILIPPINE PESO
PESO 49.80 = US$1.00 (EXCHANGE RATE AS OF MAY 30, 2017)

PREFACE

Reports on the Observance of Standards and Codes Accounting and Auditing ('ROSC A&A') assess financial reporting and auditing standards, institutions and practices in participating countries. These reports form part of a joint initiative implemented by the World Bank and the International Monetary Fund to review the quality of implementation of internationally recognized standards and principles in 12[1] key areas ('the ROSC program') with a view to promoting financial and economic stability.

This report provides an assessment of financial reporting and auditing requirements and practices within the corporate sector[2] in the Philippines and sets forth areas for consideration for improving the institutional environment for A&A. The ROSC A&A used international benchmarks of good practice governing financial reporting and auditing in the assessment, including International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA). This report updates an earlier assessment which was published in 2006 and was undertaken following a formal request from the Government of the Philippines.

This report is
CONFIDENTIAL

[1] These comprise accounting, auditing, anti-money laundering and countering the financing of terrorism (AML/CFT), banking supervision, corporate governance, data dissemination, fiscal transparency, insolvency and creditor rights, insurance supervision, monetary and financial policy transparency, payments systems, and securities regulation.
[2] Not-for-profit companies and companies limited by guarantees are not in the scope of the ROSC A&A.

ACKNOWLEDGEMENTS

The Report on the Observance of Standards and Codes, Accounting and Auditing (ROSC A&A) was conducted at the request of the Government of the Philippines, from October 2016 to May 2017. All findings reflect this period of the review and some stated future events may have occurred by publication date. The World Bank team was led by Bonnie Ann Sirois (Senior Financial Management Specialist) and Aisha Lanette de Guzman (Financial Management Specialist), and included Alfred Jean-Marie Borgonovo (Senior Financial Management Specialist), Nataliya Mylenko (Senior Financial Sector Specialist), IFRS Consultants Michael J. Wells and Ana Czarnieka, and local Consultants Edson Joseph Guido, Mohammad Zidni Marohombsar, and Mark Allister Robis.

The review was conducted through a participatory process involving the World Bank Country Office Manila and various in-country stakeholders, including the Department of Finance, Board of Accountancy, Securities and Exchange Commission, Bangko Sentral ng Pilipinas, Insurance Commission, Bureau of Internal Revenue, Philippine Institute of Certified Public Accountants, Professional Regulation Commission, Commission on Higher Education, auditing firms, academia, and other business communities, as well as development partner USAid. The ROSC A&A team particularly would like to thank the ROSC steering committee team members led by Undersecretary Antonette Tionko, for the strong leadership of this initiative within Government.

The team also gratefully acknowledges Mara Warwick (Country Director for the Philippines), Birgit Hansl (Practice Leader for Governance), Roberto Tarallo and Fily Sissoko (Financial Accountability and Reporting Practice Managers, Governance East Asia and the Pacific) and Jarett Decker (Head of the World Bank Centre for Financial Reporting Reform), for their guidance and support.

The report also benefited from the comments of World Bank peer reviewers: Qurat ul Ain Hadi (Financial Management Specialist), Christopher Robert Fabling (Senior Financial Management Specialist), and Henri Fortin (Lead Financial Management Specialist).

EXECUTIVE SUMMARY

The Government of the Philippines (GoP) has taken steps to sustain the inclusive pattern of recent growth and has endeavored towards reforms that facilitate private investment. In February 2017, the Philippine Development Plan (PDP) 2017-2022 was approved, laying out the new administration's policy goals over the next six years and its objective of enabling the Philippines to become an upper-middle-income country by 2022. With the passage of the PDP, the government has committed itself to policies that promote equitable tax reform, enhanced market competition, and improvements in the ease of doing business in the context of a sustainable buildup of public infrastructure investment and increased spending on social services. The Philippines economy has remained resilient to global headwinds, as robust domestic demand pushed the Gross Domestic Product (GDP) growth rate to 6.8 percent, year-on-year.

To support the pace of reform, the GoP sought the World Bank's assistance to provide an up to date assessment of the Report on the Observance of Standards and Codes, Accounting and Auditing (ROSC A&A). Adopting measures to strengthen the accounting and auditing (A&A) environment will allow the GoP to make significant progress in the reform agenda embarked on by the government in support of the PDP. The ROSC A&A 2.0 assessment focuses on three pillars—A&A standard analysis with reference to international benchmarks, institutional framework including institutional capacity, monitoring and enforcement, and analysis of A&A standards as designed and practiced. The outcomes of the assessment directly contribute to the Government's reform agenda to improve capital market performance, governance of Government Owned and Controlled Corporations (GOCCs), and micro, small, and medium-sized enterprise (MSME) sector development. The study is particularly relevant to the World Bank Group's financial year (FY) 2015–18 Country Partnership Strategy for the Philippines and provides actionable recommendations to the World Bank Group and other donors to support the GoP in its reform plan.

The main actors responsible for the policy reforms are the key regulators and stakeholders – Department of Finance (DOF), Securities and Exchange Commission (SEC), Board of Accountancy (BOA), Bureau of Internal Revenue (BIR), Bangko Sentral ng Pilipinas (BSP), Insurance Commission (IC), Professional Regulation Commission (PRC), Commission on Higher Education (CHED) and the Philippine Institute of Certified Public Accountants (PICPA).

Overview of Accounting and Auditing Environment

The Philippines has a comprehensive accounting and auditing framework, established standards, and mature institutions to support its sophisticated capital market structure and well developed financial sector. The profession, concentrated in highly urbanized areas, is well developed and demonstrates a considerable degree of technical expertise, sophisticated use of technology, and awareness of current issues and trends. National accounting and auditing standards are substantially equivalent to international principles and many elements of international good practice are in place to foster reliable and efficient corporate financial reporting. One notable exception exists, however, with respect to the underlying legal framework necessary to enable an independent system of oversight over the quality of audits. Such a system is a critical element of a financial framework supporting a developed capital market such as that of the Philippines, and provides a level of assurance over the integrity of financial information which is necessary to attract investment and enhance regional and global market competition. Further, such a system is a requirement of the Mutual Recognition Agreement of the Association of South East Asian Nations (ASEAN), and the Philippines lags behind its peers[3] in this regard.

Stakeholders in the Philippines are aware of the need to establish an independent system of oversight over the quality of audits, and have proposed revisions to the legal framework to achieve this goal. There is a need for greater coordination of efforts, however, to ensure proper alignment of proposed legislation and that critical elements relating to legal powers and authority, appropriateness of staffing and funding, and cooperation among regulators exists.

Several other challenges remain in the country particularly in: rationalizing regulatory requirements and increasing support for small and medium-sized practitioners (SMPs) and MSMEs, especially those located outside the Metro Manila Region; increasing the statutory audit threshold; and improving transparency and accountability of GOCCs. The key recommendations and related challenges are presented below. Detailed policy recommendations with responsible parties and time frames for implementation are presented in section IV of the report. The findings and policy reforms in the report are meant to contribute to the development of the country action plan. The World Bank and other development partners can provide support to the Philippines as it addresses these issues.

Key Recommendations and Related Challenges

Measures to Enhance Market Competition

An independent, comprehensive system of audit quality assurance with risk based inspections and an enabling legal framework is a critical missing element of the Philippines' developed capital market structure. Such a system would enhance investors' confidence and boost capital market performance. This encourages more investment and lending, thereby contributing to increased private sector growth and development. Auditors are critical gatekeepers to help assure the reliability of corporate financial reporting released to the public, so a system of oversight for auditors to assure the quality of their work and adherence to ethical standards plays a central role in fostering financial transparency in the private sector. Experience has shown that the audit profession cannot adequately regulate itself, in part because auditors are asked to test and challenge the reporting of the companies that hire and pay them, resulting in an imperfect alignment of their incentives with the public interest they serve. Consequently, an increasing number of countries, including most leading economies, have established independent audit oversight systems in line with international good practice and principles, having concluded that the benefits of doing so exceed the costs. A sound system of public audit oversight also serves to develop the profession. Several separate initiatives have been undertaken in the Philippines, in support of both the capital market and professional development. Although a level of collaboration among regulators exists, coordination across these initiatives remains fragmented and must be strengthened to achieve the most effective and efficient use of available resources and develop a comprehensive and cohesive system of oversight.

[3] Refer to Annex 2.

A reform of the legal framework is needed in order to achieve the establishment of an independent and effective legal regulatory function for oversight of audit quality assurance. The legal framework should include appropriate arrangements to insulate the oversight body from undue interference by practicing members of the accountancy profession and other vested interest groups. Funding for the oversight body should be stable and sufficient. It is essential that the specialists who will carry out monitoring and enforcement activities on behalf of the oversight body are able to be remunerated at market rates that are commensurate to the skills required for audit quality assurance. This is especially critical for inspectors of PIE auditors. With respect to MSME auditors, such a program should initially be developmental in nature and used as a tool to build capacity of SMPs. A dual system of audit quality oversight[4] has been proven to be effective in achieving each of these objectives, and such a system would be well suited to the Philippines in this regard.

Greater Transparency and Accountability by GOCCs to Enhance Service Delivery

Improved corporate governance, financial reporting, and auditing practices in GOCCs will enable improved performance and reduced fiscal drain on the government's scarce resources. Included in the reform agenda of the DOF is the reform of GOCCs with the following objectives: increasing the net contributions of GOCCs to the National Treasury; making the government corporate sector responsive to financial and fiscal reforms; and instilling public accountability and financial discipline in GOCCs. All Government Business Enterprises were required to adopt Philippine Financial Reporting Standards (PFRS) from the beginning of calendar year (CY) 2016, yet wide variations continued in the financial reporting frameworks applied in the preparation and presentation of financial statements through CY 2015. The absence of comprehensive transition planning by these entities indicates that successful transition to full compliance with PFRS will be difficult to achieve.

Only 65% of the total financial reports of GOCCs were audited in 2015, and many repeat audit findings have been carried over from year to year without resolution[5]. The timely availability of audited financial information and resolution of audit findings is necessary for effective monitoring, transparency and accountability of GOCCs. The Commission on Audit (COA), which audits GOCCs, reported that the submission of financial information by GOCCs for audit, as well as staffing constraints, are challenges in the timely completion of audits. As a result, only monitoring information for 2014 is disclosed on the Governance Commission for GOCCs' website.

Facilitate Ease of Doing Business and More Efficient Tax Collection for Micro, Small and Medium Sized Enterprises

The rationalization of statutory audit thresholds and the establishment of a risk based statutory audit exemption framework are key elements of the needed reform measures to promote ease of doing business and more efficient tax collection for micro, small, and medium sized enterprises. The present framework is based on a simplified approach of nearly 100% audit coverage commonplace in nascent economies. Modernization of the statutory audit framework to incorporate a risk assessment appropriate to the size of the Philippines' economy is needed to effectively target audit requirements.

---

[4] In such a system, the responsibility for audit quality assurance over auditors of non-PIEs may be delegated to the national professional accountancy organization.
[5] Based on the 2015 Annual Financial Report of COA

In developing the statutory audit exemption framework, alternate levels of assurance such as compiled and reviewed financial statements should be considered, and current reporting thresholds for submission of audited financial statements should be raised significantly. Under the present structure, there are simply not enough auditors in the country to complete the required number of statutory audits in accordance with Philippine Standards on Auditing (PSA) and Philippines Statement on Quality Control (PSQC)[6], and many micro and small companies subject to the statutory audit requirement cannot realistically afford a proper audit. The result is a degeneration in audit quality which provides little assurance on the integrity of financial and tax reporting, and a significant burden on micro and small enterprises. Likewise, a simplified financial reporting framework should be considered for small entities[7], as the costs of applying PFRS for SMEs often exceed the benefits for these entities.

The current requirements governing compilation of financial reports are onerous and should be further reviewed to eliminate redundancies and undue burden to the MSMEs. The present requirement that only Certified Public Accountants (CPAs) may prepare internally compiled financial statements creates a significant financial and reporting burden to MSMEs.[8] Accounting Technicians who may act as in-house financial professionals for small and micro sized entities may be more appropriate to fill this need. Furthermore, the Certificate of Compilation Services creates an additional reporting requirement which is a reiteration of already existing requirements and is not required by financial regulators.

Further rationalize the accreditation process for CPAs in public practice in order to enhance ease of doing business for practitioners. There are a number of registrations or accreditations for external auditors required by different regulatory agencies, each with their own application and renewal processes, deadlines, and documentation requirements. While specific industry experience and education requirements will necessarily be unique for each regulated industry, an initiative to further simplify or harmonize accreditation processes to the extent possible would ease the administrative burden for CPAs who maintain multiple accreditations.

The skills and competencies of SMPs should be developed to better enable these practitioners to act in the capacity of business advisors to MSMEs and effectively fill the need for compliance services. To manage their finances successfully and make sound business decisions to grow, MSMEs need solid financial information, analysis, and a seasoned perspective, in addition to the fundamental need to fulfil the financial information requirements of regulators and tax authorities. Access to financial capital is a common challenge faced by many MSMEs. It is important that MSMEs understand their financing options and the various business implications of each, as well as how to prepare financial proposals and make their case to financial service providers. Professional accountants are the most common source of external advice for MSMEs, yet SMPs often lack the skills and competencies to fill this role. Access to quality continuing professional development (CPD), technical

[6] Annexes 9 and onward represent geographical displays of auditor coverage in the Philippines.
[7] A simplified financial reporting framework is currently allowed only for micro entities.
[8] Section 4(b) of the Rules and Regulations Implementing RA No. 9298 states that any position in any business or company in the private sector which requires supervising the recording of financial transactions, preparation of financial statements, coordinating with the external auditors for the audit of such financial statements and other related functions shall be occupied only by a duly registered CPA provided that the business or company where the above position exists has a paid up capital of at least 5 million pesos and or an annual revenue of at least 10 million pesos.

tools, and other resources are a challenge for those located outside the Metro Manila region. Additionally, SMPs should achieve more meaningful representation in various CPA organizations, and more significant involvement in adopting resolutions and implementing the rules and regulations relevant to the profession.

Efforts to raise the standards of accounting education throughout all regions need to be supported, both technically and financially. A new framework for tertiary education of accountants and auditors is due to be implemented over the next few years, which will contribute to the next generation of accountants. At the undergraduate level, the revised model involves students being required to choose either one of four specializations offered, or the revised Bachelor of Science in Accountancy track. These changes need to be further reviewed and carefully implemented, accompanied by a continued shift towards competency-based education, and taking into account local capacity and needs. Considering an average CPA pass rate of 40% from 2010 to 2016, 68% of schools offering a Bachelor of Science in Accounting Program have a passing rate below the national average. An accredited BSc Accountancy Program is offered by over 100 public and around 500 private institutions.

PICPA is an important and critical stakeholder that should have the resources and internal capacity to fully discharge its various roles. These roles include supporting individual practitioners and firms throughout the country through the delivery of technical resources and CPD. CPD requirements recently shifted from a thematic approach to a competency-based approach. The next step in the reform should involve simplifying the process of accreditation of CPD providers and ensuring accredited CPD offerings are aligned to sectoral needs. The capacity of Accounting Technicians, who may act as in-house financial professionals for small and micro sized entities, could be strengthened by including a membership tier within PICPA which offers CPD, tools, and resources for Accounting Technicians. In addition, PICPA should further evaluate the need for a viable career development path for women in the profession.

Perception and Use of Corporate Financial Reporting

Generally, economic decision-makers in the Philippines expressed a high degree of confidence in financial information reported by listed entities. These were perceived as high quality and useful for decision-making purposes and lending decisions. GOCC and MSME financial reporting were seen as relatively less credible and useful. The financial statements of unlisted GOCCs, in particular, were considered less likely to provide a fair representation of the economic reality of the underlying transactions. A review of a sample of financial statements generally reaffirmed perceptions that financial reporting quality is correlated with entity size, and that the quality of financial reporting by GOCCs appears to be less satisfactory than by other forms of ownership. Across all entities, disclosures related to judgments and estimates, required by a principle-based reporting framework, could be improved.

To enhance the annual reporting of PIEs, the Philippines should consider implementing an integrated reporting framework. One of the more significant recent governance trends is the global shift to integrated reporting, which combines the most material elements of information currently contained in separate reports - such as financial, management commentary, governance and remuneration, and sustainability - into a single coherent whole. The global financial crisis, persistent economic disparities, climate change, and evidence of corporate governance failures are just some of the issues that are raising the profile of corporate transparency among regulators, civil society bodies, and the general public[9]. Integrated Reporting brings together the material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social, and environmental context within which it operates. It provides a clear and concise representation of how an organization demonstrates stewardship and how it creates value, now and in the future.

[9] Integrated Reporting: Lessons from the South African Experience, Hanks and Gardiner

I. INTRODUCTION

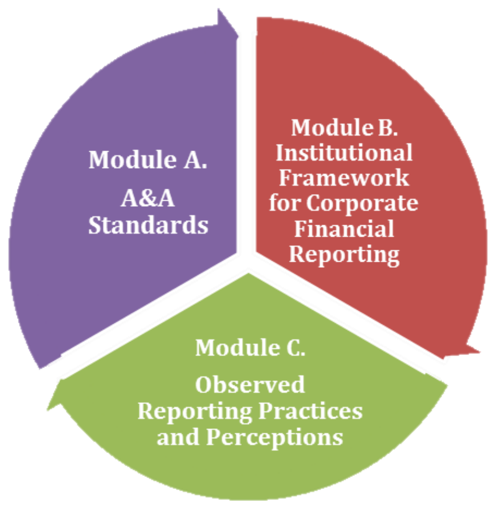
Country Background

1. **The Philippines is a lower middle income country with a population of about 100 million people. In recent years, the Philippines has ranked among the world's fastest-growing economies, with an annual real GDP growth rate averaging 4.5 percent since 2000.** Like many other countries in the East Asia region, the Philippines has benefited from the rapid growth of the Chinese economy, which has expanded at an average growth rate of close to 10 percent since 2000, as well as regional and global trade integration and value-chain development. The GoP has taken steps to sustain the inclusive pattern of recent growth and has initiated reforms that facilitate private investment. In February 2017, the PDP 2017-2022 was approved, laying out the new administration's policy goals over the next six years with the objective of enabling the Philippines to become an upper-middle-income country by 2022. With the passage of the PDP, the government has committed to policies that promote equitable tax reform, enhanced market competition, and improvements in the ease of doing business in the context of sustainable increase in public infrastructure investment and spending on social services.

Approach

2. **The review focused on assessing the Philippines institutional framework underpinning A&A practices in the regulated entities, the private sector including MSMEs, and in state-owned enterprises (GOCCs) and comparing it with international standards and good practice as outlined in Figure 1.** The data and information used for the review were gathered from the revised ROSC A&A 2.0 diagnostic questionnaire completed by stakeholders; by reviewing accountancy profession-related documents; and through interviews with many stakeholders from the government, regulatory and accountancy bodies, auditing firms, individual practitioners, public interest entities (PIEs), banks, insurance companies, MSMEs, and academia. The outcomes of the assessment contribute toward the Government's reform agenda and provide means of achieving the targets set for the Sustainable Development Goals. This review was conducted from October 2016 to May 2017. All findings reflect this period of the review and some stated future events may have been achieved by publication date.

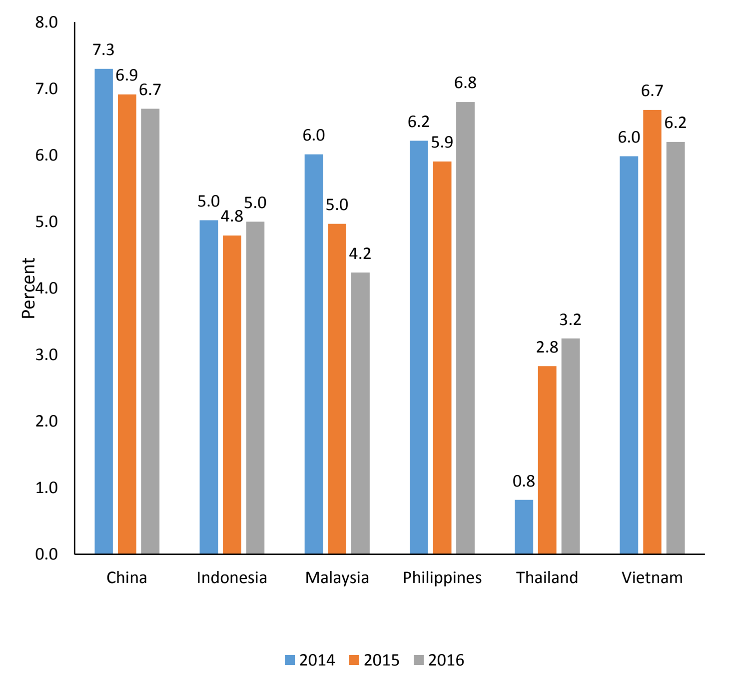
Figure 1. ROSC 2.0 Assessment Methodology



Economic Context[10]

3. **The Philippines economy has remained resilient to global headwinds, as robust domestic demand pushed the GDP growth rate to 6.8 percent, year-on-year.** Capital formation drove overall growth for the first time since 2013, supported by an expansionary fiscal policy focused on public infrastructure spending, which spurred construction activity. Consumption growth accelerated significantly for the second consecutive year, as an accommodative monetary policy kept interest rates low, supporting consumer lending while low inflation boosted households' purchasing power. In the last quarter of 2016, the Philippine peso reached 50 pesos per one US dollar, a level not seen since 2009. Over the entire 2016, the peso depreciated by 5.35 percent. BSP reports that the peso's full-year depreciation was on a par with most of its regional peers and was less volatile than most currencies. Meanwhile, a continued increase in remittance inflows bolstered household consumption. However, import growth outpaced export growth due to softer external demand in a weaker-than-expected global economy. The industrial and services sectors expanded, while the agriculture sector contracted due to structural vulnerabilities. Growth has become more inclusive in recent years, and the expansion in 2016 contributed to increased job creation. By the end of the year, the unemployment rate had fallen to a historic low of 4.7 percent. However, underemployment has remained high at around 20 percent over the last ten years, raising job-quality concerns. The industrial and service sectors drove job creation in 2016, largely offsetting substantial job losses in the agriculture sector. The latest available poverty estimates, which are based on 2015 data, show a significant reduction in poverty levels, with the incidence of extreme poverty declining from 10.6 percent in 2012 to 6.6 percent in 2015.

Figure 2. The Philippines' economy performed well in 2016 relative to regional comparators (GDP growth rate)[11]



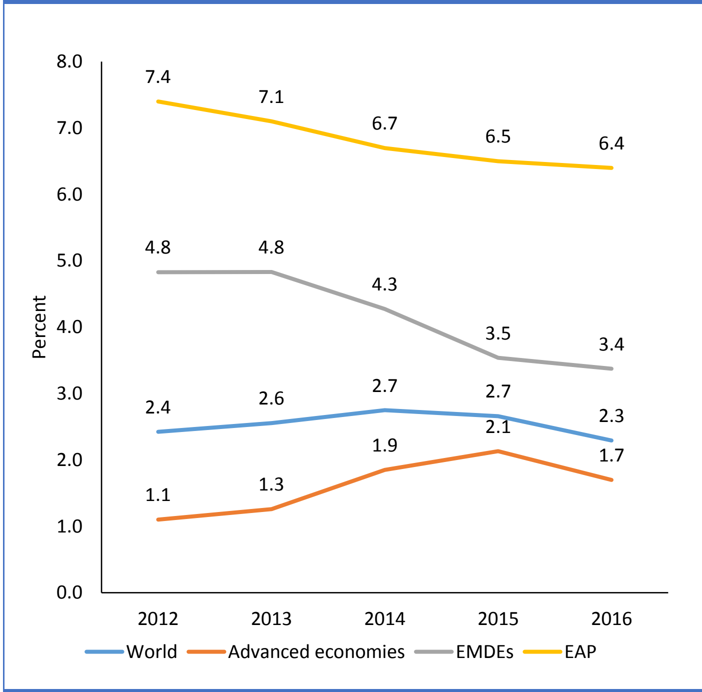
4. **The Philippines' growth outlook remains positive.** The World Bank projects that real GDP will grow at a rate of 6.9 percent in 2017 and 2018. Supported by sound domestic macroeconomic fundamentals and an accelerating recovery among other emerging markets and developing economies, the Philippines is expected to remain one of East Asia's top growth performers. The government's commitment to further increasing public infrastructure investment is expected to sustain the

[10] Excerpts from the World Bank Philippines Economic Update, April 2017
[11] Source: World Bank

country's growth momentum through 2018 and reinforce business and consumer confidence. The implementation of planned infrastructure projects could generate positive spillover effects for the rest of the economy, spurring additional business activity, accelerating job creation, and ultimately contributing to higher household consumption. Strong and inclusive economic growth is projected to further increase household consumption and speed the pace of poverty reduction.

5. **Sustaining the inclusive pattern of recent growth will require an enduring commitment to structural reforms that facilitate private investment.** The economy's failure to complete its structural transformation reflects limited competition in key sectors, restrictions on foreign investment, insecure property rights, regulatory challenges, and other obstacles to doing business, which continue to discourage private investment. Underinvestment in turn contributes to high rates of informality and low job quality, and it weakens the impact of employment growth on poverty reduction. The new PDP 2017-2022 and the *AmBisyon Natin* 2040[13] strive to address these challenges. The PDP articulates the administration's main policy goals over the next six years and its objective of enabling the Philippines to become an upper-middle-income country by 2022.

Figure 3. Global growth rate slowed and fell to a post-crisis low of 2.3 percent[12]



6. **The government has proposed an ambitious tax-reform package to help balance planned spending increases.** The government submitted the Tax Reform for Acceleration and Inclusion (TRAIN)[14] proposal to Congress in January 2017. The package aims to redesign the tax system to be fairer, simpler, and more efficient in raising the resources required to invest in infrastructure and human capital. It would lower the country's income-tax brackets and adjust tax rates to improve overall equity, and it would reduce rates for both the donor's tax and the estate tax. To offset the loss in revenue resulting from lower tax rates, the government would expand the value-added tax base by limiting exemptions. In addition, the government would adjust excise taxes on fuel and automobiles to further offset revenue losses. To complement these policy reforms, the government is proposing several tax-administration efficiency measures. The authorities estimate that implementing the first

[12] Source: World Bank
[13] *AmBisyon Natin* roughly translates to "Our Ambition." This is a long-term vision for the Philippines adopted by Executive Order on October 15, 2016.
[14] House Bill (HB) 4774. The House of Representatives passed HB 5636 in May 2017 which was deliberated in the Senate on November 2017.

package of tax reforms would yield revenues of 133.8 billion pesos, or around 0.8 percent of GDP, by end-2018.

Corporate and Financial Sector

Publicly Listed Companies

7. **The primary stock exchange in the Philippines is the Philippine Stock Exchange[15] (PSE).** The PSE is a full member of the World Federation of Exchanges[16], the Asian and Oceanian Stock Exchanges Federation, and was conferred membership in the Association of National Numbering Agencies[17]. As of end September 2016, securities traded at the PSE include shares of 265 publicly listed companies, exchange traded funds and warrants and 132 active trading participants.[18] There have been 13 initial public offerings and 15 follow on offerings during the last three years.

8. **The total value turnover in the stock market for the year 2016 was 1.93 trillion pesos, a decrease of 11% from 2015's 2.15 trillion pesos.** The average daily stock market value turnover in 2016 likewise dropped by 13% to 7.11 billion pesos from last year's average daily value turnover valued of 8.96 billion pesos. Foreign transactions in 2016 were also down, with a net foreign investment of 2.16 billion pesos. The closing market index of PSE for the year 2016 fared similar to its neighbors in Asia except for Indonesia, Taiwan, and Thailand, which have double-digit returns. Despite this declining performance, the PSE was recognized by the institutional investment magazine Alpha Southeast Asia for the third time (2016, 2015, and 2013) as the Best Stock Exchange of the year in Southeast Asia.

Table 1. Trading Volume of PSE[19]

Year	Total Trading Volume (pesos)
2013	388,480,888,390
2014	730,151,769,115
2015	455,619,147,352

9. **The Philippines also has the Philippine Dealing and Exchange Corporation (PDEx) which provides the trading infrastructure for the fixed-income and foreign exchange (FX) markets.** The PDEx operates the organized secondary market for the trading of fixed income securities which includes both Government and Corporate Securities. PDEx also provides the Spot U.S. dollar/Philippine peso platform, an FX trading system, for the Bankers

Table 2. Trading Volume of PDex[20]

Year	Total Trading Volume (pesos)
2013	5,732,001,810,000
2014	4,449,315,000,000
2015	3,423,371,890,000

[15] www.pse.com.ph

[16] Formerly known as the Federation Internationale des Bourses de Valeurs or International Federation of Stock Exchanges

[17] The numbering agencies around the world that assign a unique identification code to each new security. The International Securities Identification Number (ISIN) is the global adoption of a common standard for identifying securities according to International Organization for Standardization (ISO) Standard 6166.

[18] http://www.pse.com.ph/resource/3Q16_v2.pdf

[19] Source: Technistock

[20] Source: PDEx

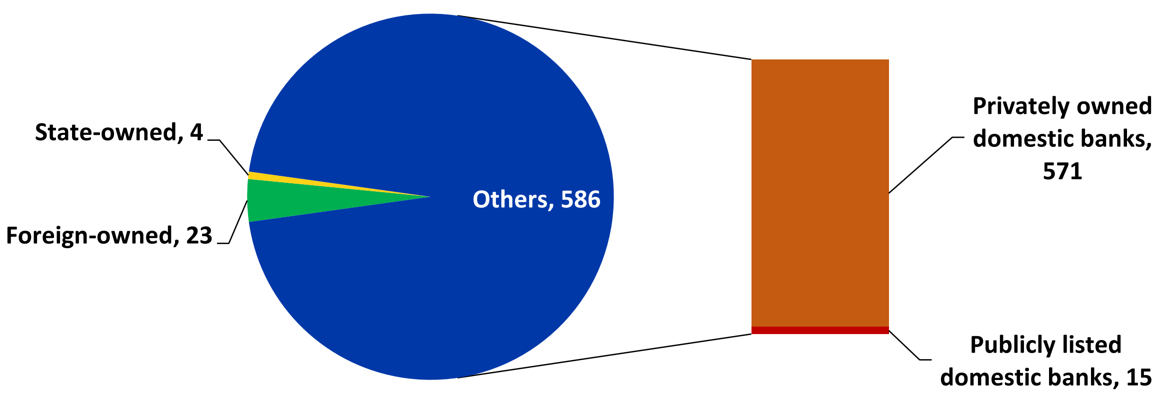
Association of the Philippines. The activity captured from this platform establishes a daily key reference rate, the FX Settlement Rate or the Philippine Dealing System FX Rate.

10. **The Securities Regulation Code (SRC)**[21] **is the primary legislation governing the regulation of capital markets in the Philippines, and the SEC is the agency tasked to implement the SRC.** The SEC has jurisdiction and supervision over all corporations, partnerships, or associations who are the grantees of primary franchises and/or a license or permit issued by the Government. The SEC exercises authority over PDex to ensure that it operates properly to provide the market place for buying and selling of securities on the secondary market. The PDEx is a registered self-regulatory organization (SRO) for the fixed income market, while the PSE is a registered SRO for the equities market. As a member of the International Organization of Securities Commissions (IOSCO), the SEC subscribes to and is committed to follow IOCSO's Objectives and Principles of Securities Regulation.

Banking Sector

11. **The Philippine banking sector is fragmented and located across the archipelago.**[22] The bank categories are universal and commercial banks, thrift banks, rural banks and cooperative banks. As of August 31, 2016, there are 613 banking institutions, excluding their branches and other banking offices, with total aggregate assets amounting to 12.53 trillion pesos. The 613 banking institutions in the Philippines, as shown in Figure 4, comprise 23 foreign-owned, 4 state-owned and 586 domestic and privately-owned banks. Of the 586 locally owned banks, 15 are listed and actively traded on the PSE.

Figure 4. Number of Philippine Banking Institutions as of August 31, 2016



12. **Philippine banks are regulated by the BSP.** The BSP's authority emanates from the General Banking Law[23] and the New Central Bank Act,[24] BSP's charter. The BSP is an independent monetary authority with fiscal and administrative autonomy, as provided for under the 1987 Constitution and the New Central Bank Act (NCBA). The capitalization of the BSP is fully subscribed by the Government of the Philippines (Section 2, NCBA). The funding of the BSP's operation is sourced from the retention of 50%

[21] RA No. 8799.
[22] As disclosed in Table 1.b of 2015 BSP Factbook – The Philippine Banking System Volume 1.
[23] RA No. 8791, The General Banking Law of 2000, approved May 23, 2000
[24] RA No. 7653, The New Central Bank Act (NCBA), approved June 14, 1993

of its net profits for each fiscal year (Section 44, NCBA), which includes annual supervisory fees levied on supervised institutions based on the level of their assets.

Insurance Sector

13. The Philippine insurance industry continues to grow despite the fact that there is limited insurance activity in many parts of the country due to the lack of availability of financial intermediaries. Thus, insurance products are usually restricted to pre-need schemes distributed via micro-insurance operations. Other challenges of the insurance sector are the lack of awareness of insurance (both life and non-life) as well as its benefits and the low income level of many citizens who continue to have little savings. Life insurance's recent success pertains to the micro-insurance sector targeting low-income earners. Another area that is gaining attention is health insurance. This may be attributable to the success of the business process outsourcing industry, whereby employees are offered elaborate benefit packages which typically include health insurance or health maintenance organization (HMO) coverage.

14. In the Philippines, there are 102 domestic and foreign insurance companies plus one reinsurer as of December 16, 2016. Currently, there are 15 foreign insurance companies, 83 domestic and privately owned insurance companies, and 5 state-owned insurance companies. Only the professional reinsurer is listed and traded on the PSE. The insurance industry posted 18% growth in 2015 with both life and non-life sectors recording significant expansions. The insurance industry is expected to expand further given the country's economic growth prospects and expanding middle class. On a macroeconomic level, the combined premiums of life and non-life sectors as a percentage of GDP were: 1.83% in 2013, 1.56 in 2014, and 1.75% in 2015[25].

Table 3. Composition of Insurance Companies

Insurance Companies	Number
Direct Insurers	**102**
Composite	4
Life	27
Non-Life	66
State-owned	5
Professional Reinsurer	**1**
Total	**103**

15. The IC regulates Philippine insurance companies and is a government agency under the DOF. IC's mandate is to regulate and supervise insurance through the provisions of the New Insurance Code[26]. The IC is responsible for safeguarding the interest of policyholders and other stakeholders. It also aims to strengthen the insurance industry and to make it globally competitive. In addition to the insurance industry, the IC also oversees the pre-need industries[27], the HMO[28] and the following institutions:

a. Insurance brokers (62 brokers as of February 23, 2015) and reinsurance brokers (21 brokers as of January 30, 2015)

[25] The 2015 Insurance Commission Annual Report
[26] RA No. 10607, The Amended Insurance Code, approved August 15, 2013
[27] RA No. 9829, The Pre-Need Code of the Philippines, approved December 3, 2009
[28] Executive Order (EO) 192 series of 2015 (Transferring the regulation and supervision over HMO from Department of Health to the Insurance Commission

b. Mutual Benefit Associations (inclusive of Micro Mutual Benefit Associations) (33 institutions as of November 24, 2016)

c. Trust for Charitable Institutions (20 institutions as of February 3, 2016)

d. Pre-Need Companies (18 companies as of November 24, 2016)

Non-Listed Commercial Enterprises

16. **It is estimated that 80% of businesses in the Philippines are family enterprises and most of the large corporations are either family-owned or family controlled.** There are 356,485 active stock corporations registered with the SEC across 17 regions as of December 31, 2016. Partnerships are also a common form of commercial enterprise in the country. As of December 31, 2016, there are 101,627 active partnerships[29] recorded with the SEC. Newly recorded partnerships by the SEC numbered 16,589 from 2011 to 2015 (average of 3,318 per year) with total capital contribution of 8.984 billion pesos (average of 1.797 billion pesos per year).

Micro, Small and Medium Sized Enterprises

17. **The Magna Carta for MSMEs defines MSMEs as any business activity or enterprise engaged in industry, agribusiness, and/or services, whether single proprietorship, cooperative, partnership, or corporation whose total assets have a value that fall within the appropriate categories as noted in Table 4.** Joint Resolution No. 1 Series of 2003 issued by the National Statistics Office and the Small and Medium Enterprises Development Council states that enterprises may be classified according to number of employees or amount of assets (excluding fixed assets).

Table 4. MSME Profile[30]

Type	Employees	Asset value	Number	%
Micro	Up to 9 employees	up to 3 million pesos in amount of assets	806,609	89.53%
Small	10-99 employees	more than 3 million pesos but less than 15 million pesos in assets	86,367	9.59%
Medium	100-199 employees	more than 15 million pesos but less than 100 million pesos in assets	3,863	0.43%
Large	200 and above employees	above 100 million pesos in assets	4,075	0.45%
Total	**-**	**-**	**900,914**	**100.00%**

[29] Partnerships are being governed by Articles 1767 to 1867 of the Civil Code of the Philippines which provided that at least two (2) persons may form a partnership for commercial undertaking, and for the exercise of a profession.
[30] Source: Philippine Statistics Authority, 2015 data

18. **The MSME sector in the Philippines represents more than 99% of all enterprises and employs almost two-thirds of the workforce, but produces only about one third of GDP.** Despite various programs and incentives offered by the government, productivity of the MSME sector in the Philippines is lagging, amounting to only around one-third of Malaysia and one-twentieth of those in high-income countries. MSMEs also do not seem to grow: the share of more productive and more-export oriented medium size MSMEs in the total MSME population stagnated over the last decade and represents only 0.4 percent of all MSMEs. The Philippines has one of the lowest rates of newly registered formal firms in the world: Filipinos establish only two limited liability companies per 10,000 working age people per year (whereas in Malaysia, for instance, it is 10 times that rate). Most jobs in the MSMEs sector are informal, low-paid, and vulnerable to poverty.

19. **The MSME sector faces significant challenges to growth and competitiveness**. As documented in the most recent "Philippine Urbanization Study" and earlier World Bank reports, including the Philippine Development Report 2013 "Creating More and Better Jobs", the main constraints to the growth and competitiveness of Philippine MSMEs include a cumbersome business environment, poor access to markets, weak access to finance, deficient infrastructure, including ICT, and difficult access to technology and skills. The MSME sector is also stymied by an underdeveloped, under-utilized, and under-resourced public support system for MSMEs at both the national and city-level, which undermines growth, competitiveness, and poverty reduction.

State Owned Enterprises / Government Owned and Controlled Corporations

20. **Public corporations exist in the Philippines in the form of GOCCs, which carry out commercial and non-commercial activities.** GOCCs include government financial institutions, government instrumentalities with corporate powers (GICP), and government corporate entities (GCE). GOCCs both receive subsidies and pay dividends to the national government. The Governance Commission for GOCCs (GCG), which is under the Office of the President, acts as a central advisory, monitoring, and oversight body with authority to formulate, implement, and coordinate policies governing GOCCs to ensure their financial viability and responsiveness to the needs of the public. As of April 2017, GOCCs were classified according to sectors by the GCG as shown in Table 5.

21. **The GCG was created by Republic Act (RA) 10149, also known as the GOCC Governance Act of 2011, to address GOCCs' continued reliance on government subsidies amidst reports of excesses and financial mismanagement.** The GCG's focus on ensuring commercial viability resulted in the number of GOCCs being reduced from 157 to 116 in 2014. As a result, total dividends and other remittances increased to yield 95.90 billion pesos (averaging 27.40 billion pesos a year) from 2011 to June 2014[31], compared to 81.54 billion pesos (averaging 9.06 billion pesos a year) from 2002 to 2010.

[31] DoF brief on its reform agenda for GOCCs. http//www.dof.gov.ph/index.php/advocacies/reform-agenda/

Table 5. Profile of Government Owned and Controlled Corporations[32]

Type of enterprise	Number of enterprises
A. Government Financial Institutions	
1. Banking Institutions[33]	8
2. Non-Banking Institutions	14
3. Social Security Institutions	6
Government Financial Institutions Total	**28**
B. GICP/GCE	
1. Trade, Area Development and Tourism Sector	20
2. Educational and Cultural Sector	5
3. Gaming Sector	2
4. Energy and Materials Sector	13
5. Agriculture, Fisheries and Food Sector	11
6. Utilities and Communications Sector	18
7. Healthcare Services Sector	1
GICP/GCE Total	**70**
Government Financial Institutions and GICP/GCE SUBTOTAL	**98**
C. OTHERS	
8. GOCCs supervised by Presidential Commission on Good Government	15
9. Coconut Industry Investment Fund Oil Mills Group	6
10. Coconut Industry Investment Fund Holding Companies	14
11. Realty Holding Companies	5
12. Under Privatization	3
13. Non-operational / Inactive	22
14. Under Abolition	24
15. Dissolved / Abolished	2
16. GOCCs Disposed by the Privatization and Management Office	1
17. GOCCs excluded from coverage of RA 10149	22
Others Total	**114**
TOTAL	**212**

[32] Table 5 is a listing of all GOCCs. The subsection “Others” totaling 114 includes GOCC’s that are for abolition or are excluded from the supervision of the Governance Commission for GOCCs
[33] Includes DBP Data Center Inc., LandBank Countryside Development Foundation Inc., LBP Resources and Development Corporation and United Coconut Planters Bank PCGG

22. **Despite the centralization of the oversight function into an agency with explicit responsibility and powers, several concerns continue to exist, and the current governance arrangements of GOCCs, including the role of audit committees, should be further strengthened in practice in order to effectively address these issues.** These include unresolved repeat audit findings and a lack of financial transparency demonstrated by the failure of many GOCCs to follow required PFRS. In practice, although audit committees meet regularly, their effectiveness could be enhanced if they play a more active role in the auditing process and engage with relevant stakeholders more proactively. Audit committees should also act on behalf of the shareholders to ensure that financial statements are prepared according to international standards and norms. Despite the reported improvement in financial performance of GOCCs, the Philippine Government continues to provide budgetary support to GOCCs, particularly to those implementing priority programs. The total budgetary support to GOCCs in 2016 amounted to 153.62 billion pesos, while dividends in arrears owed to the central government from 10 GOCCs amounted to 68 million pesos.

Table 6. GOCC Annual Comparative Data[34] (in billion pesos)

	2010	2011	2012	2013	2014
Assets	4,563.03	4,835.12	5,150.53	5,622.37	6,077.17
Total Comprehensive Income	63.52	99.12	180.82	118.98	263.7
Dividends	12.01	28.71	24.86	18.9	24.37
Return on Equity	3%	5%	8%	5%	9%
Return on Assets	1%	2%	3%	2%	4%

Linkage of the Assessment to the Philippines' Development Agenda

23. **The ROSC A&A update is relevant to the Government's reform agenda and The World Bank Group's Country Partnership Strategy 2015–18 for the Philippines.** The updated ROSC A&A exercise was undertaken following a formal request from the DOF and the BOA. Adopting measures to further enhance the A&A environment and thereby strengthen the financial architecture of the country will allow the GoP to make significant progress in achieving the reform agenda. It will contribute to increased GDP through capital market and private sector development, improving service delivery of public sector entities, developing the knowledge economy, and building human capital through equitable opportunities. The outcome of the assessment directly relates to the strategic themes of the World Bank Group's FY2015–18 Country Partnership Strategy for the Philippines, which includes private sector development, inclusion, and service delivery. The ROSC A&A provides actionable recommendations for the World Bank Group and donors to support the GoP in achieving its agenda.

[34] GOCC Annual Comparative Data is only available through 2014. http://gcg.gov.ph/site/

24. **In February 2017, the Philippine Development Plan 2017-2022 was approved, laying out the new administration's policy goals over the next six years.** The PDP was drafted through a consultative process involving a wide range of stakeholders from the private sector, academia, and civil society. It is grounded in the long-term vision advanced in the *AmBisyon Natin* 2040 and expands on the administration's 10-point socioeconomic agenda. The plan focuses on strategic trade and agricultural policy, as well as efforts to maximize the demographic dividend and promote macroeconomic and financial stability and fiscal prudence. With the passage of the PDP, the government has committed itself to policies that promote equitable tax reform, enhanced market competition, and improvements in the ease of doing business in the context of sustainable increases in public infrastructure investment and spending on social services. A strengthened A&A environment will enable more effective monitoring of GOCCs delivering services, inform decision making by investors and other stakeholders, compel a rationalization of regulatory requirements, and provide a base for more efficient tax collection.

25. **Under the PDP, the government aims to transition the Philippines to upper-middle-income status and significantly reduce poverty by 2022 while maintaining the country's strong pace of economic growth.** The Duterte administration has outlined three key targets it hopes to achieve by the end its term: (i) a sustained 7-8 percent GDP growth rate over the medium-term; (ii) a 7.6 percent reduction in the poverty rate from 21.6 percent in 2015 to 14.0 percent by 2022, as well as a decrease in the rural poverty rate from 30.0 percent in 2015 to 20.0 percent in 2022; and (iii) a further reduction in the unemployment rate from 5.5 percent in 2016 to within the target range of 3-5 percent in 2022. In view of these targets, the ROSC A&A explores challenges to MSME growth in the context of the current financial reporting framework and availability of qualified accountants to provide business support and advisory services, particularly in rural areas.

Box 1. Philippine Development Plan 2017-2022

The PDP 2017-2022 is founded on the pillars of *Malasakit, Pagbabago,* and *Patuloy na Pag-unlad*, roughly translated as "Care, Change, and Continued Progress." Under the first pillar (*Malasakit*), the government aims to reinforce citizen trust in public institutions. Strategies under this pillar include promoting transparency within the government, improving the efficiency of the public sector, and pursuing regulatory reforms. Under the second pillar of *Pagbabago*, or what the PDP refers to as inequality reducing transformation, the PDP aims to increase opportunities for output growth and income generation and improve access to human capital. Strategies under this pillar focus on enhancing access to quality basic education for all Filipinos, and increasing opportunities within the global market by streamlining bureaucratic processes for local and foreign businesses. Under the third pillar of *Patuloy na Pag-unlad,* the government aims to increase the Philippine economy's growth potential by maximizing the country's potential demographic dividend and advancing science, technology, and innovation. Strategies under this pillar include maintaining macroeconomic, fiscal, and financial stability as the country undertakes critical tax reforms.

II. ASSESSMENT

A&A Standards

26. **Accounting standards are a critical 'language' of business for investors and other stakeholders**. The Philippines is seeking to improve the business climate to attract Foreign Direct Investment (FDI) and mobilize finance to support productive and job-creating activities. Adopted accounting standards for listed companies are based on the increasingly universal international benchmark, the IFRS,[35] which better allow foreign investors to understand the financial reports of domestic companies, thus enabling potential investment and growth opportunities. Internationally recognized standards such as the IFRS and ISA bring increased credibility, comparability, and transparency at an international level, which fosters investor confidence.

Financial Reporting Standards Analysis

27. **The Philippines adopted IFRS-based standards as PFRS in 2005.** PFRS are fully converged with IFRS except for the deferral of IFRS Interpretations Committee (IFRIC) 15, *Agreements for the Construction of Real Estate,* which will be effective as PFRS 15 in 2018. IFRIC 15 adoption is deferred due to perceived difficulties for companies to account for revenues on pre-completed real estate transactions based on percentage of completion. All companies (listed, non-listed, corporations, banks, insurance) are required to adopt PFRS, except for those defined as SMEs for which the required standard is PFRS for SMEs (based on IFRS for SMEs with no differences). Micro entities have the option to use as their financial reporting framework either the income tax basis, accounting standards in effect as of December 31, 2004, or PFRS for SMEs.

28. **IFRS are renamed as PFRS when adopted by the Financial Reporting Standards Council (FRSC)[36].** Whenever new standards/amendments are issued by the International Accounting Standards Board (IASB)/IFRIC, these are soon tabled for discussion in the FRSC then approved by the BOA and adopted by the SEC.

Auditing Standards Analysis

29. **ISA[37] have been fully adopted in the Philippines.** All current ISA have been adopted by the Auditing and Assurance Standards Council (AASC)[38], and several more recently adopted standards await publication in the Official Gazette, including International Standards on Auditing (ISA) 700R (revised),

---

[35] IFRS are the standards issued by the IASB, the standards issued by its predecessor the International Accounting Standards Committee (IASC) and adopted by the IASB, and the interpretations issued or adopted by IFRIC.

[36] The FRSC was established by the PRC through BOA under the implementing rules and regulations of the Philippine Accountancy Act of 2004 to promulgate accounting standards in the Philippines.

[37] International Standards on Auditing (**ISA**) are professional standards for the performance of financial audit of financial information. These standards are issued by International Federation of Accountants (**IFAC**) through the International Auditing and Assurance Standards Board.

[38] The AASC was created by the PRC upon the recommendation of BOA tasked to establish and promulgate the auditing standards in the Philippines. The AASC have 18 members including the Chairman.

Forming an Opinion and Reporting on Financial Statements, and 701 (new), Communicating Key Audit Matters in the Independent Auditor's Report. The AASC submits to the PRC BOA all its adopted standards for approval and publication.

Institutional Framework for Corporate Financial Reporting

General Financial Reporting Requirements

30. **General financial reporting and auditing requirements for the corporate sector are prescribed by law and are largely in line with international good practice.** Table 7 summarizes the A&A requirements by type of enterprise and Table 10 summarizes the key legislation and regulations for corporate sector A&A requirements.

31. **The present thresholds that require submission of audited financial statements in the Corporation Code of 1980 and National Internal Revenue Code of 1997 are no longer effective in the current economic context.** For the requirement to submit audited financial statements, the SEC threshold is paid up capital of 50,000 pesos (approximately $1,000) and the BIR threshold is gross quarterly sales of 150,000 pesos (approximately $3,000). As a result of these low thresholds, the system by itself encourages below-standard audits since the sheer volume of audits required exceeds the available supply of CPAs[39]. Approximately 1.5 million entities are subject to audit in the Philippines. With only 6,149 registered auditors, of which 5,500 operate as sole practitioners, this results in an average of 243 audits performed annually by each registered auditor.[40] While it is understandable that regulatory authorities would want to obtain assurance on financial statements reported by companies, a risk-based statutory audit exemption framework should be put in place to better focus available resources and lower levels of service, such as compilation and review services, should also be considered in order to better describe the level of service that is actually being provided. It is to be noted that a 2017 tax reform package still under legislative review includes a proposal to increase the threshold to 750,000 pesos (gross quarterly sales). The SEC, BIR and DOF are working together to ensure consistency of rules and avoid conflicting regulations.

32. **In order to address perceived self-review threats for a CPA in public practice, whereby the same practitioner both compiles and audits financial information, the BOA has required the submission of a Certificate of Compilation Services in its Resolution No. 3-2016 dated January 2016.** This requires a CPA employed by the company or a third party CPA contracted to perform a compilation to attach a certified statement to a compilation report attesting to compliance with compilation requirements. This is meant to ensure that the accounting function of compiling financial statements is properly separated from the audit function. Separation of the compilation and auditing functions is already required under several other authoritative pronouncements, however, and the additional reporting burden imposed by the Certificate of Compilation Services is not offset by additional assurance in achieving this result.

[39] Refer to Annex 9 for geomapping analysis
[40] As reported by the Board of Accountancy based on industry information and CPA registration data as of April 2016

Table 7. Summary of A&A Requirements by Type of Enterprise

Enterprise	Legal definition	Accounting standards	Statutory audit requirements
Listed Companies	Entities with securities listed for trading in the Philippine Stock Exchange	PFRS	Annual audit of financial statements by an auditor with (i) Group A accreditation from the SEC, (ii) accreditation from the BIR, and (iii) accreditation from the BOA. In addition, the auditor must, (iv) for listed banks also be accredited by the BSP or for listed insurance companies by the IC.
			Rotation of independent auditor (or in the case of an audit firm of the signing partner) after every five years of engagement with a two year cooling off period for re-engagement.
Banks	Entities engaged in the lending of funds obtained in the form of deposits	PFRS	Annual audit of financial statements by an auditor with (i) accreditation from BSP, (ii) at least Group B accreditation from the SEC for universal banks registered as underwriter of securities, (iii) accreditation from the BIR, and (iv) accreditation from the BOA.
			Rotation of independent auditor (or in the case of an audit firm of the signing partner) every five years or earlier and a cooling off period for re-engagement of at least two years.
			BSP provides guidelines on expectations for an effective external audit function
Insurance Companies	Entities doing an insurance business or transacting an insurance business	PFRS	Annual audit of financial statements by an auditor with (i) accreditation from IC, (ii) accreditation from the BIR, and (iii) accreditation from the BOA.
			Rotation of independent auditor (or in the case of an audit firm of the signing partner) every five years.
			IC provides guidelines on expectations for an effective external audit function

Enterprise	Legal definition	Accounting standards	Statutory audit requirements
Large and/or Publicly Accountable Entities	A company that meets any of the following criteria: a) Total assets of > 350 million pesos or total liabilities of > 250 million pesos; or b) Required to file financial statements under Part II of SRC Rule 68 (i.e., issuers of securities to the public); or c) In the process of filing their financial statements for the purpose of issuing any class of instruments in a public market; or d) Holder of secondary licenses issued by regulatory agencies.	PFRS	Annual audit of financial statements for covered SEC-registered corporations by an independent auditor duly registered with the BOA[41]. Regulated entities, in addition, should have independent auditors that are accredited by the SEC[42] (i.e., Group A, B, C, or D).
			Audited financial statements must have been stamped "received" by the BIR or its authorized banks[43], wherein the BIR only considers as valid document/attachment to tax returns the financial statements prepared, signed, and certified by duly accredited tax practitioners[44] (i.e., BIR accreditation).
			Rotation of independent auditor (or in the case of an audit firm of the signing partner) of regulated entities after every five years of engagement. A two year cooling off period is required before the re-engagement of the same signing partner or individual auditor[45].
Small and Medium-sized Entities	A company that meets all of the following criteria: a) Total assets of 3 million pesos to 350 million pesos or total liabilities of 3 million pesos to 250 million pesos; b) Not required to file financial statements under Part II of SRC Rule 68 (i.e., issuers of securities to the public); c) Not in the process of filing their financial statements for the purpose of issuing any class of instruments in a public market; and d) Not a holder of secondary licenses issued by regulatory agencies.	PFRS for SMEs	Annual audit of financial statements for covered SEC-registered corporations by an independent auditor duly registered with the BOA and accredited by the BIR.

[41] SRC Rule 68, as amended (2011). Section 3A(ii) – Qualifications and Reports of Independent Auditors: Examination of FS by Independent Auditors
[42] Ibid. Section 3B (i) – Additional Requirements for Independent Auditors of Regulated Entities.
[43] Ibid. Section 2C(vi) – General Guides to FS Preparation: Form, Order and Terminology
[44] National Internal Revenue Code Section 6(G) and reiterated under BIR Revenue Regulation No. 14-2010. Section 6 – Effects of Accreditation
[45] SRC Rule 68, as amended (2011). Section 3B(ix).

Enterprise	Legal definition	Accounting standards	Statutory audit requirements
Micro Entities	A company that meets all of the following criteria: a) Total assets and liabilities of < 3 million pesos; b) Not required to file financial statements under Part II of SRC Rule 68 (i.e., issuers of securities to the public); c) Not in the process of filing their financial statements for the purpose of issuing any class of instruments in a public market; and d) Not a holder of secondary licenses issued by regulatory agencies.	Income tax basis or PFRS for SMEs	Annual audit of financial statements for covered SEC-registered corporations by an independent auditor duly registered with the BOA and accredited by the BIR. Corporations, companies, partnerships, or persons whose gross quarterly sales, earnings, receipts, or outputs exceed 150 thousand pesos (i.e., 600 thousand pesos annually) should have their books of accounts audited and examined yearly by an independent CPA.[46]
Cooperatives	An autonomous association of persons duly registered association with the Cooperative Development Authority (CDA).	Philippine Financial Reporting Framework for Cooperatives	Annual financial audit conducted by an external auditor, who is: (a) independent of the cooperative or any of its subsidiary that is being audited; and (b) a member in good standing of the PICPA and is accredited by both the BOA and the CDA.
Electric Cooperatives	Electric distribution utilities organized and registered with the National Electrification Administration (NEA).	PFRS	Annual audit of financial statements by external auditor with accreditation approved by the NEA Administrator.
State-owned Entities	Government-owned and controlled corporations	PFRS and PFRS for SME (for those classified as Government Business Entity and those qualifying as SME, respectively under COA Circular No. 2015-003)	Annual audit of financial statements by the COA.

[46] National Internal Revenue Code of 1997. Title IX Compliance Requirements: Chapter I, Section 232 – Keeping of Books of Accounts.

33. **In the Philippines, separation of the compilation and auditing functions is required under the following authoritative pronouncements:**

a. The Philippine Code of Ethics for Professional Accountants addresses, among other things, self-review threats, which may occur when a previous judgment needs to be re-evaluated by the professional accountant responsible for that judgment;

b. Separation of the compilation and audit functions are required under PSA, which require auditor independence. If auditors are not independent, then this must be disclosed in the auditors' report;

c. Financial statements compiled by third parties are subject to *Philippine Standard on Related Services (PSRS) 4410* and therefore must include a report stating, among other things "a description of the practitioner's responsibilities in compiling the financial information, including that the engagement was performed in accordance with this PSRS, and that the practitioner has complied with relevant ethical requirements";

d. Financial statements of corporations include a statement of management responsibility signed by the Chairman of the Board, Chief Executive Officer, and Chief Financial Officer of the corporations, which attest that management "is responsible for the preparation and fair presentation of the financial statements".

e. Finally, the SEC requires all SEC accredited auditors to submit a certification attesting their adherence to the Code of Ethics for Professional Accountants in the Philippines.[47]

34. **The additional compilation requirement faces objections and opposition from different stakeholders.** The DOF has indicated in a press report that this requirement is burdensome and costly for taxpayers, particularly MSMEs. Also, the BIR in its Revenue Memorandum Circular 16-2017 dated Feb 22, 2017 clarified previous circulars and stated that only the existing documentary requirements in the filing of income tax returns should be submitted to the BIR in line with the government's thrust on improving ease of doing business and streamlining of bureaucratic requirements.

35. **In order to effectively address the threat of self-review, the requirement and necessity for separation of duties between the accounting and auditing functions must be understood by both CPAs and stakeholders alike.** The capacity of SMEs to compile financial statements internally must be built to avoid the practice of over-reliance on external auditors in the process. In practice, many SMEs do not have the expertise internally to compile financial statements under the prescribed financial reporting framework. This further emphasizes the need for both simplified reporting requirements of SMEs and increased access to competent financial professionals.

36. **Because any position in any business or company in the private sector which requires supervising the recording of financial transactions, preparation of financial statements, coordinating with the external auditors for the audit of such financial statements, and other related functions shall be occupied only by a duly registered CPA[48], small businesses which do not employ a CPA must incur**

[47] SEC Memorandum Circular No. 2, Series of 2016

[48] Section 4(b) of the Rules and Regulations Implementing Republic Act No. 9298 applies to a business or company which has paid up capital of at least Php 5 million pesos and or annual revenue of at least Php 10 million pesos.

additional cost to engage a CPA to perform these services. Many major jurisdictions, such as the United States, Australia, New Zealand, and the EU, do not require the private sector to internally employ a CPA. It is not uncommon for small businesses in these jurisdictions to employ non-CPA finance personnel, such as accounting technicians, to perform accounting functions and compile internally prepared financial statements for the entity. Eliminating the requirement that a CPA must prepare internally compiled financial information would ease the cost of doing business for small and medium enterprises currently subject to this requirement.

Publicly Listed Companies

37. **The SEC has established supervision procedures over the securities market.** SEC's Markets and Securities Regulation Department monitors and regulates all market participants such as broker-dealers, securities underwriters, transfer agents, clearing houses, exchanges, SROs, depository registries, and other entities involved in the country's capital market. At present, there are 22 specialists that review financial regulatory requirements of regulated entities. The staff hold Bachelor's Degrees in Law, Accountancy, Finance, Economics, Mathematics, Statistics, or a related area.

38. **There are existing rules and regulations over statutory and audit quality requirements of listed companies.** The SRC Rule 68 requires that the annual financial statements of listed companies submitted to the SEC be accompanied by an auditor's report issued by an independent auditor duly accredited by the SEC. The SEC through subsequent issuances of rules and regulation has prescribed other obligations of accredited external auditors to improve transparency, audit quality, and independence of external auditors. The audited financial statements of listed companies are reviewed by the SEC's Office of the General Accountant.

39. **Under the SRC Rules, the independent auditors or, in the case of an audit firm, the signing partner, of a listed company should be rotated after every five years of engagement**. A two year cooling off period shall be observed in the re-engagement of the same signing partner or individual auditor. This is also reiterated in the revised code of corporate governance under Article 5 of SEC Memorandum Circular No. 6 Series of 2009 as part of Accountability and Audit.

40. **In 2015, the SEC launched the Philippine Corporate Governance Blueprint, a corporate governance roadmap for the next five years to create specific and concrete guidelines for all Philippine corporations, taking into account the Philippine context and the G20/OECD Principles of Corporate Governance and ASEAN best practices.** The Revised Code of Corporate Governance requires all Publicly-Listed Companies to establish a separate Board Audit Committee. The Board Audit Committee shall be composed of at least three directors, one of whom shall be an independent director and the appointed chair of the Audit Committee should be an independent director. The Board, after consultations with the Audit Committee, shall recommend to the stockholders an external auditor duly accredited by the SEC Commission. If the external auditor resigns, is dismissed, or ceases to perform the service, the reasons for and the date of effectivity of such action shall be reported in the corporation's annual and current reports. The report shall include a discussion of any disagreement between the external auditor and the corporation on accounting principles or practices, financial disclosures, or audit procedures which the former auditor and the corporation failed to resolve

satisfactorily**.** The Disclosure Rules of the PSE require the immediate disclosure to the PSE of a change in a listed company's external auditor, which is considered a material event.

41. **The audited financial statements of a listed company form part of its annual report which is required to be posted on the company's website**.[49] Further, the PSE has required listed companies since 2008 to also post on their respective websites such annual reports, current reports, quarterly reports, and information statements.[50]

42. **Monitoring and enforcement of regulations over listed companies are conducted by the SEC and PSE.** The SEC imposes fines and sanctions within its mandate to erring companies to effectively regulate the capital market and to protect the interest of the investors. Likewise, the PSE monitors compliance with accounting, financial reporting, and disclosure requirements for listed companies; and as a self-regulatory organization, it is empowered to formulate and implement its rules and impose penalties and sanctions on erring listed companies. Auditors are asked to explain findings, may require companies to correct or reissue the financial statements and audit reports, and are subject to fines and penalties. Both the companies and auditors are subjected to penalties for violation of SEC rules, and for monetary penalties. Auditors are subject to fines equal to 50% of those imposed upon issuers.

43. **There are ongoing reforms within the SEC to align with recent international developments.** The SEC is a member of the IOSCO[51] and is seeking to become a full signatory to the IOSCO Multilateral Memorandum of Understanding. Recently, the SEC also released the Code of Corporate Governance for Publicly-Listed Companies as part of its roadmap to provide direction in promoting a strong corporate governance culture guided by the recent changes in the Organization for Economic Co-operation and Development (OECD) principles of corporate governance.

44. **As part of its reform process, the SEC is also in the process of rolling out the SEC Oversight Assurance Review (SOAR) inspection program.** The SOAR inspection program will involve an on-site review of the quality control policies and procedures of SEC accredited auditing firms and a review of portions of the audit work of selected audit engagements from time to time. The SEC reports that the SOAR program will also support covered auditors' compliance with PSQC 1, which is based on International Standard on Quality Control (Redrafted) "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements", issued by the International Auditing and Assurance Standards Board.[52] Measures to ensure that reviewers will be adequately qualified and compensated are not yet known.

[49] SEC Memorandum Circular 11, Series of 2014
[50] Memorandum No. 2008-0182
[51] The International Organization of Securities Commissions (IOSCO) is the international body recognized as the global standard setter for the securities sector. IOSCO develops, implements and promotes adherence to internationally recognized standards for securities regulation.
[52] Description provided by SEC.

Banking Sector

45. **Banks are required to comply with the financial reporting requirements of PFRS and submit additional prudential reports**.[53] In cases where the standard provides more than one option in accounting, the option or limit prescribed by BSP regulations shall be adopted by banks. In addition to BSP reporting, banks also comply with SEC, PSE (if listed) and BIR requirements. For prudential reporting purposes, the BSP issued the Financial Reporting Package for Banks[54]. The Financial Reporting Package is a set of financial statements that is primarily designed to align the BSP's reporting requirements with PFRS/Philippine Accounting Standards (PAS). Depending on the type of report, they are submitted to BSP on a monthly, quarterly, or annual basis. In case there are differences between the general purpose financial statements and the regulatory prudential reporting, reconciliation is required to be submitted by the banks to the BSP.

46. **Banks and BSP- Supervised Financial Institutions (BSFIs) are subject to well-defined recordkeeping and data integrity policies**. They are required to comply with certain laws such as the Bank Secrecy Law and Anti-Money Laundering Law. The BSP Manual of Regulations for Banks (Subsection X185.3) also requires that as part of banks' control activities they should have adequate accounting policies, records, and processes.

47. **The BSP has adequate resources to perform comprehensive reviews of the financial statements of regulated banks**. The BSP - Supervision and Examination Sector uses a risk-based supervisory approach in the review and examination of supervised financial institutions, wherein the scope of review and examination focus on the business areas which pose the greatest risk to the soundness of the financial institutions. As provided under Section 28 of RA No. 7653 (The New Central Bank Act), all banking institutions shall be examined once every year with an interval of at least 12 months between annual examinations. In 2016, a total of 549 banks/banking groups were examined, or 94.7 percent of the total 579 financial institutions programmed for examination. As of September 30, 2016, the BSP-Supervision and Examination Sector had a total of 906 bank supervisors. BSP has a stringent recruitment process. The applicants go through a rigorous examination and must have relevant qualifications such as a CPA, masters in finance, business administration, or public administration. BSP is currently in the process of strengthening its capacity in preparation for the adoption of IFRS 9 – Financial Instruments.

48. **BSP performs on-site and off-site supervision to determine compliance with applicable A&A requirements.** A bank's compliance with applicable accounting and auditing requirements is determined by BSP as part and parcel of its supervisory process. Supervisors are guided by a Manual of Regulations and various internal guidelines to assess each respective bank's compliance with financial and prudential reporting requirements. Off-site bank supervisors (Central Point of Contact Departments and Integrated Supervision Departments) are responsible for the continuing supervision and monitoring of BSFIs in between on-site examination. The evaluation of audited financial

[53] As prescribed in BSPs Manual of Regulations for Banks (Subsection X191.3).

[54] BSP Circular No. 512 dated February 3, 2006, as amended. The Financial Reporting Package shall be prepared on a solo and consolidated basis. Solo basis shall refer to the combined financial statements of the head office and branches/other offices. Consolidated basis shall refer to the combined financial statements of parent bank and its subsidiaries. Only banks with financial allied subsidiaries, excluding insurance subsidiaries, shall submit the report on a consolidated basis.

statements aims to ensure that these fairly reflect the financial condition of the BSFI, and appropriately reflects key matters for informed decision making. The results of evaluation of the audited financial statements also provide relevant inputs to the assessment of the quality of the external auditors' performance. This will then feed into the supervisory plan for the BSFI and the assessment of the continuing inclusion of the external auditors in the BSP list of selected external auditors.

49. **BSP and SEC have established policies on non-compliance with accounting/financial reporting requirements.** BSP Circular No. 875, dated April 2015, provides the supervisory enforcement policy governing financial institutions under BSP's jurisdiction. It puts together, in a holistic manner, all the enforcement tools available to the BSP as contained in various laws, rules, and regulation and communicates the deployment thereof in the course of performing its supervisory function. Likewise, SEC MC No. 8, Series of 2009, contains a scale of fines for non-compliance with the financial reporting requirements. The enforcement measures and actions by regulators are summarized in Annex 7.

50. **Banks are only permitted to select auditors accredited by BSP.** Like the SEC, the BSP requires an annual financial audit by an external auditor accredited by the regulator. As of the review date there are 84 BSP accredited auditors (partners and sole practitioners) for the 613 banking institutions in the Philippines. The availability of auditors diminishes in the provinces outside Manila. It was noted in one province that there is no available BSP accredited certified public accountant to audit thrift banks.

Box 2. Reporting Responsibilities of External Auditors of Banks to Oversight Agencies

Bangko Sentral ng Pilipinas

External auditors are required to report to the BSP within 30 calendar days after discovery of any of the following cases:

a. Any material finding involving fraud or dishonesty (including cases that were resolved during the period of audit);
b. Any potential losses the aggregate of which amounts to at least 1% of the capital;
c. Any finding to the effect that the consolidated assets of the company, on a going concern basis, are no longer adequate to cover the total claims of creditors;
d. Material internal control weaknesses which may lead to financial reporting problems.

In addition, the external auditors are required to report directly to the BSP within 15 calendar days from the occurrence of any of the following:

a. Termination or resignation as external auditor and stating the reason thereof;
b. Discovery of a material breach of laws of BSP rules and regulations such as, but not limited to, capital adequacy ratio, and loans and other risk assets review and classification;
c. Findings on matters of corporate governance that may require urgent action by the BSP.

Securities and Exchange Commission and Philippine Stock Exchange

External auditors of publicly listed banks are required to disclose to SEC and PSE receipt of any material information or knowledge of a corporate act, development, or event within ten minutes. The disclosure must be made to the regulatory bodies before its release to the news media. The original copy of the disclosure must be delivered to the SEC within 24 hours from the time of initial disclosure.

51. **Auditor performance is continuously assessed by BSP.** Under the BSP Monetary Board Resolution No. 1352 dated September 16, 2004, external auditors included in the BSP list shall be valid for three years. After that, external auditors may apply for renewal. The Supervision and Examination Sector makes an annual assessment of the performance of external auditors and recommends deletion from the list

even before the 3-year renewal period if, based on assessment, the external auditors' report did not comply with BSP requirements and other pertinent provisions[55]. Refer to Annex 7 for enforcement measures and actions over accredited auditors. BSP accredited external auditors must comply with measures to ensure independence and professional ethics and avoid situations where there are possible conflicts of interest.

52. **Banks are required to create an Audit Committee to provide oversight on financial reporting policies, practices and control, and internal and external audit functions.** The Bank's Corporate Governance Manual[56] states that the Board of Directors shall create board-level committees including an audit committee. The audit committee shall be composed of at least three members of the board of directors, wherein two of whom shall be independent directors, including the chairperson, preferably with accounting, auditing, or related financial management expertise or experience commensurate with the size, complexity of operations, and risk profile of the bank.

53. **Banks are required to comply with public disclosure requirements.** Under BSP's Manual of Regulations for Banks[57] the audited financial statements and annual report must be posted in a conspicuous place in head offices, all branches, and on the company website. The financial statements of publicly listed banks are available on respective websites, from the PSE, newspapers when published, and the SEC. PSE-listed banks are also governed by the stock exchange's material information disclosure rules and procedures. Non-listed banks complete financial statements are only available from the SEC.

54. **Philippine banks follow the SEC's Revised Code of Corporate Governance[58] which is based on OECD guidelines and contains both mandatory and directory provisions.** This Corporate Governance Blueprint provides best practices for corporate governance and policies to be adopted by all Philippine corporations registered with the SEC, including banks.[59] Furthermore, the BSP also issued Circular no. 749[60] as a guideline in strengthening banks corporate governance and compliance on a 'comply and explain' basis. The corporate governance of the bank is one of the areas examined by BSP during its annual examination, and any violation to the corporate governance will impact the report on examination of the bank and its corresponding Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to the Market Risk (CAMELS) rating.

---

[55] The revised rules and regulations governing the selection and delisting by BSP of the external auditor of covered institutions are provided under BSP Circular No. 660 dated August 25, 2009. This Circular is pursuant to Section 58 of the General Banking Law of 2000, and the existing provisions of the Memorandum of Agreement dated August 12, 2009, binding BSP, SEC, IC and PRC-BOA for a simplified and synchronized accreditation requirement for external auditors.

[56] BSP's Manual of Regulations for Banks Sec. X.141.3 C.7.d (i) and Section 2 of BSP Circular No. 749 series of 2012

[57] BSP Manual of Regulations for Banks X190.2

[58] SEC MC No. 6, series of 2009 and amended thru SEC MC No. 9, series of 2014

[59] SEC. 2015. Philippine Corporate Governance Blueprint

[60] This circular was recently amended to align with the recent issuance of the Basel Committee Supervision on Corporate governance and the amended Code of Corporate Governance of the SEC. The amendments to the Guidelines in Strengthening Corporate Governance in BSP Supervised Financial (BSFIs) Institutions were taken-up and approved by the Monetary Board, in its meeting on August 3, 2017. The amendments will be presented in three separate issuances covering the following (1) Enhanced corporate governance guidelines for BSFIs; (2) Guidelines on risk governance; and (3) Enhanced guidelines in strengthening compliance frameworks.

55. **Banks must comply with related party disclosure requirements as mandated by BSP[61]**. BSP requires banks to adequately disclose in their Annual Report, if applicable, the overarching policies and procedures for managing related party transactions, including managing conflicts of interest or potential conflicts of interest; responsibility of the related party transactions committee; nature, terms and conditions, as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments, of material related party transactions. Moreover, universal banks/commercial banks that are part of conglomerates shall report all entities in the conglomerate structure. The conglomerate structure shall likewise disclose beneficial owners of shareholdings that are in the name of Philippine Central Depository Nominee Corporation.

Insurance Sector

56. **Insurance companies are subject to prudential reporting prescribed by the IC**. Each insurance company is required to publish in the newspaper a full synopsis of its Annual Statements[62]. The Annual Statements, which are separate from the audited financial statements, are prepared in accordance with the Financial Reporting Framework[63] of the IC. There is a separate reconciliation process between the statutory reporting and general purpose reporting.

57. **Examination and reporting reforms in the insurance industry are underway.** The IC is currently modifying some of its prudential reporting requirements to align with international standards. This includes amending the risk based capital (RBC2) framework to comply with the internationally accepted solvency framework; revision of the financial reporting framework to include the economic valuation of assets and liabilities based on internationally accepted accounting, actuarial, and insurance core principles; and valuation of reserve liabilities based on the valuation standards for insurance policy reserves.

58. **The IC has primary responsibility for review of the general purpose audited financial statements of insurance companies, however the SEC completes such reviews for insurance companies that have a secondary license with them; that are under investigation; or if there are issues raised by the Congress or Senate.** Section 253 of the New Insurance Code (RA 10607) states that the Commissioner shall, at least once a year and whenever he considers the public interest so demands, cause an examination into the affairs, financial condition, and methods of doing business of any insurance company authorized to transact business in the Philippines.

59. **The IC's Financial Examination Group, with a total of around 60 personnel, is currently responsible for reviewing the annual statements of insurance companies based on the statutory reporting requirements of IC.** The Financial Examination Group conducts onsite and offsite examinations of the affairs, financial condition, and methods of doing business of the insurance companies to determine if such complies with the requirements prescribed by IC. The examination and monitoring include observation on the completeness of reports and verification of the financial information reported to the IC by the insurance companies. In the event of non-compliance with the net worth and solvency

[61] BSP Circular 895 dated December 14, 2015
[62] Consist mainly of financial position/balance sheet.
[63] The Financial Reporting Framework provides measurement and recognition based on IFRS and the requirements of the New Insurance Code. However, it is not the same with the financial reporting framework used for general purpose financial statement used for the public and those filed with the other regulators.

requirements the insurance company is given a deadline to cover its deficiency (Refer to Table 8 for status of IC reviews). Otherwise, the insurance company will be placed under conservatorship. More than half of IC examiners are primarily CPAs or graduates with an accounting degree and most have attended industry specific training on insurance. This training is also mandatory for external auditors of the insurance companies, however, such training attended by practicing CPAs is not credited to their CPD requirement because the training institutions have not been approved by the BOA.

60. **The IC publishes through the website its activities and performance of the insurance and pre-need industry in its Annual Report**. However, there was a delay in the publication of the 2015 Annual Report of the Commission which was only published in January 2017[65].

Table 8. Insurance Commission review & actions on non-life insurance companies[64]

	2013	2014	2015	TOTAL
Compliant with net worth	65	63	61	**189**
Not compliant with net worth with pending requirements	1	1	3	**5**
Under Conservatorship	8	2	0	**10**
TOTAL	**74**	**66**	**64**	**204**

61. **Insurance companies are only permitted to select auditors accredited by the IC.** The IC has issued circulars on the engagement of external auditors including its expectation for an effective external audit (IC CL40-2015) and to appoint an auditor accredited by the IC. As of the review date there are 91 IC accredited auditors (partners and sole practitioners) for the 257 insurance and other institutions covered by the IC. Streamlining of the external auditor accreditation process is ongoing.

62. **External auditors have reporting responsibilities to the IC.** The IC provided guiding principles for an external audit of insurance companies in its CL 40-2015. The circular required the external auditor to report to the IC within 30 calendar days cases such as fraud, under-reserving of incurred but not reported losses or policy reserves, material internal control weaknesses, termination or resignation as external auditor, breach of IC rules and regulations, or corporate governance findings that require urgent action from the IC as enumerated in CL 29-2009. The latter circular also requires that external auditors provide a provision in their audit engagement for the disclosure of information to the IC and that it shall not be grounds for civil, criminal, or disciplinary proceedings against them.

63. **In addition to the SEC's requirement, the IC also requires all covered institutions to abide by the Code of Corporate Governance Principles and Leading Practices in a compulsory manner when it issued Circular No. 31-2005**. The IC issued Circular Letter No. 1-2010 requiring all covered institutions to accomplish and submit the corporate governance scorecard annually. Non-compliance of insurance companies with the Code of Corporate Governance forms part of the examination report prepared annually by the IC. Such companies are required to explain non-compliance and given time to take corrective actions. Also, the IC issued a circular[66] placing insurance companies' officers, employees,

[64] Source: IC
[65] This was confirmed by IC.
[66] IC Circular Letter No. 21-2006 on the Negative list of Officers and Employees and its supplement (IC Circular Letter No. 22-2015)

and agents on a negative list in violation of the New Insurance Code for intentional misstatement, attempted fraud or dishonest practices, misappropriation of money, or misrepresentation of terms and conditions of policies sold to the public.

Non Listed Commercial Enterprises and Micro, Small and Medium Sized Enterprises

64. **The SEC is the public body that receives the financial statements of all registered corporations both foreign and domestic.** Audited financial statements submitted to the SEC become public documents and may be accessed or downloaded through the SEC i-View system at prescribed fees. Non-listed corporations follow the number coding system of the SEC in determining deadlines in the submission of their audited annual financial statements. Penalty is imposed in accordance with a scale of fines for non-compliance with the existing rules and regulations of the SEC such as non-filing, late filing, or deficiencies in the audited financial statements. Refusal to comply may warrant the suspension or revocation of the certificate of incorporation or license of the erring entities.

65. **Financial statements submitted by corporations should be accompanied by an auditor's report issued by an independent auditor.** SRC Rule 68, as amended (2011 version), together with subsequent official pronouncements, interpretations, and rulings on accounting and reporting matters, applies to the form and content of financial statements required to be filed with the SEC by corporations that meet the following specified thresholds: (a) stock domestic corporations with paid-up capital stock of at least 50 thousand pesos or more; and (b) stock foreign corporations with assigned capital in the equivalent amount of 1 million pesos or more.

66. **The SEC has various operating departments that are specifically responsible for reviewing and evaluating the accuracy of the financial statements that are filed depending on the kind of the company.** The information contained in Table 9 contains the number of companies whose audited financial statements were reviewed and referred by the Office of the General Accountant to the various operating departments for further action. In the SEC's Company Registration and Monitoring

Table 9. Number of Companies Referred by the Office of General Accountant to SEC's Operating Departments for Actions[67]

SEC Operating Dept.	2013	2014	2015	2016	Feb-17	TOTAL
Corporate Governance and Finance Department	36	42	40	39	2	**159**
Company Registration and Monitoring Department	311	325	168	207	8	**1019**
Markets and Securities Regulation Department	4	6	5	3	1	**19**
TOTAL	**351**	**373**	**213**	**249**	**11**	**1197**

[67] Source: SEC

Department, financial statements are evaluated by 33 staff members who are graduates of business courses with specific training and expertise particular to accounting standards.

67. **Other forms of commercial enterprises such as partnerships and sole proprietorships accordingly file their audited financial statements with the BIR**. These are not made available to the public.

68. **The National Internal Revenue Code of 1997 requires audit of books of accounts.** Section 232 provides that corporations, companies, partnerships, or persons whose gross quarterly sales, earnings, receipts, or output exceed 150 thousand pesos should have their books of accounts audited and examined yearly by independent CPAs. The BIR examines filed income tax returns to assess correctness of taxes by reviewing attached audited financial statements particularly the opinion and the notes to the financial statements, and all the books of accounts and other accounting records of the taxpayer. Currently, the BIR is in the process of hiring technical staff to add to its more than 2,000 CPAs nationwide out of the total 9,344 permanent filled positions.

69. **The minimum thresholds and financial reporting frameworks for the required submission of audited financial statements are perceived to be too low and too costly by business owners.** Although micro entities have the option to use as their financial reporting framework either the income tax basis, accounting standards in effect as of December 31, 2004 or PFRS for SMEs, small entities must comply with IFRS for SMEs which is a complex framework given the size and composition of these entities. Other challenges and issues affecting MSMEs include the cost of compliance with tax and accounting regulations, difficulty in reconciling of tax and accounting treatments, and different perspectives and opinions by BIR examiners.[68] The FRSC is considering a proposal by the Association of Certified Public Accountants in Public Practice to develop a financial reporting framework specifically for micro, small, and medium enterprises (MSMEs).

70. **Challenges to SMPs in delivering services to MSMEs include limited access to training and tools that will assist in their conduct of quality audits and raise their level of service to MSMEs.** Based on a questionnaire and discussions with SMP's, practitioners raised the following challenges facing the professions:

- *Limited opportunities for audit and accounting training, including development of mid-management auditors especially for areas outside Manila or highly urbanized cities.* Alternative modalities for training and lectures are suggested given that CPD requirements only allow PICPA accredited trainers.
- *Scarcity of CPAs outside Manila.* Issues of auditor well-being were raised, particularly during the busy season.
- *Limited access to tools such as accounting and audit software.*
- *SMPs value the training offered by oversight agencies such as SEC and BIR but availability of such training outside the Metro Manila Region are limited.*

[68] Based on feedback received during roundtable discussions with MSMEs.

State Owned Enterprises / Government Owned and Controlled Corporations (GOCCs)

71. **Included in the reform agenda of the DoF is the reform of GOCCs.** Within the DoF, the Corporate Affairs Group monitors the cash flows of the government corporate sector; provides technical support in the privatization of transferred accounts and government corporations; and formulates and implements policies affecting GOCCs. The Corporate Operations Office of the Corporate Affairs Group have the following objectives: increasing the net contributions of GOCCs to the National Treasury; making the government corporate sector responsive to financial and fiscal reforms; and instilling public accountability and financial discipline in GOCCs.

72. **The financial reporting framework adopted by GOCCs or government corporations in their preparation and presentation of financial statements until CY 2015 varied**. Based on the 2015 Annual Financial Report by the COA, GOCCs (depending on sector type) have adopted any of the following: a) PFRS, b) Philippine Public Sector Accounting Standards (PPSAS), and c) accounting principles prescribed under the New Government Accounting System. Most of the water districts, and other GOCCs present their financial statements in accordance with the New Government Accounting System, which was required to be used in all national government agencies effective January 1, 2002[69]. PPSAS was subsequently prescribed for use by certain national government agencies, further defined below, effective January 1, 2016.[70].

73. **The COA has classified government corporations for the purpose of determining the applicable financial reporting framework in the preparation of their financial statements.** COA Circular No. 2015-003 dated April 16, 2015, defined and identified government corporations and other entities/instrumentalities with corporate powers as either government or non-government business enterprises. A total of 98 government corporations plus all water districts (numbering to 507 operating nationwide in CY 2015) were classified as government business enterprises, and must apply PFRS. Government corporations categorized as small and medium enterprises (SMEs) may adopt PFRS for SMEs pursuant to SEC Notice dated December 11, 2009. Non-government business enterprises must complete financial reporting in accordance with PPSAS.

74. **All government business enterprises were required to adopt PFRS, and non- government business enterprises were required to adopt PPSAS, beginning January 1, 2016.** It is noted that government financial institutions that are under the supervision of the BSP, and other government corporations registered under the SEC, adopted the PFRS in 2005. As of CY 2015, 41 of the 98 regular GOCCs[71] identified by the COA as government business enterprises have been reporting under PFRS, while the other 57 regular GOCCs plus most of the water districts are expected to implement first-time adoption of PFRS in its CY 2016 financial statements. A number of GOCCs asked to defer adoption of PFRS and PPSAS until January 1, 2017.

75. **The COA requires all government corporations to use the Revised Chart of Accounts since January 1, 2016.** Guidance and procedures on conversion from the Philippine Government Chart of Account to the Revised Chart of Accounts were provided under COA Circular 2016-006 dated December 29,

[69] COA Circular No. 2001-04 dated October 30, 2001
[70] COA Circular No. 2015-040 dated December 1, 2015
[71] Consist of 21 government financial institutions, 35 GICPs/GCEs, and 42 other GOCCs from Table 5.

2016. Pursuant to this circular, an entity's first PFRS financial statements will include a minimum of the statements of financial position as at December 31, 2016, December 31, 2015, and January 1, 2015; statements of comprehensive income, cash flows, and changes in equity for the years ended December 31, 2016 and 2015; and related notes, including comparative information.

76. **The COA is mandated under Article IX-D of the Philippine Constitution to audit all government agencies or entities; and to submit to the President and the Congress an annual report covering the financial condition and operation of the Government, its subdivisions, agencies, and instrumentalities, including government-owned or controlled corporations, and non-governmental entities subject to its audit.** The Corporate Government Sector of the COA is responsible for the audit of all government corporations. These are grouped into six clusters: Banking and Credit; Social Security; Public Utilities; Industrial and Area Development; Agricultural and Natural Resources; and Social, Cultural, Trading, Promotional and Other Services. The 16 COA Regional Offices are responsible for the audit of water districts that are based in their territorial jurisdiction. In view of the number of water districts and the limited number of auditors, the audit of water districts is done on a cyclical basis such that each is audited once every two years. Included in the submitted 2015 Audited Financial Report (which covers the financial condition and operation of the GOCCs, including government financial institutions and their subsidiaries, and water districts) are financial reports of 629 entities, 141 of which are government corporations while the other 488 are water districts. Of the total financial reports, 411 or 65% were audited. Virtually all of the 218 unaudited financial statements pertain to water districts.[72].

77. **The COA staffing summary reported that of the 14,102 permanent positions, 7,910 were filled as of 2015 and 8,032 as of 2016.** Around 5,000 COA staff are CPAs. The stringent COA hiring process creates challenges and difficulties in the recruitment of technical personnel. In response to these issues, the COA is considering outsourcing financial audits and is undertaking a study based on the COA strategic plan and review of existing legislation on its mandate.

78. **The COA has adopted the Philippine Public Sector Standards on Auditing starting 2013.** These are based on International Standards of Supreme Audit Institutions. The COA initially adopted 24 Philippine Public Sector Standards on Auditing on January 29, 2013 under Resolution 2013-007, upon the recommendation of its Public Sector Auditing Standards Board created in 2008 to assist the Commission Proper in formulating and implementing public sector auditing standards. 16 Public Sector Standards on Auditing were adopted on May 7, 2014 under Resolution 2014-011. On June 30, 2017, seven additional standards and one update of the International Organization of Supreme Audit Institutions Framework of Professional Pronouncements was adopted by COA, bringing to 48 the total number of international audit standards adopted by COA. It is to be noted that COA has not yet adopted PSA 701: Communicating Key Audit Matters in the Independent Auditor's report which was adopted by the AASC to be effective for audits of financial statements for periods ending on or after

[72] Audit engagements for water districts are usually performed after the audits of regular agencies or government corporations, which are prioritized due to the assignment of resident auditors in these agencies according to the 2015 Annual Financial Report.

December 15, 2016. This has created issues for GOCCs required to submit audited financial statements to SEC which requires companies to be compliant with PSA 701[73].

79. **The COA posts full Annual Audit Reports of all government corporations on its website.** Included in the audit reports are the observations and recommendations, and the status of implementation of the previous year's audit recommendations. Moreover, disclosure requirements of RA 10149 provide that GOCCs must maintain a website enabling unrestricted public access to posted documents including, among others, the following: (a) their latest annual audited financial and performance report within 30 days of its receipt; and (b) audited financial statements for the previous five years.

80. **The GCG issued Memorandum Circular No. 2012-07 to formally promulgate and implement the Code of Corporate Governance for GOCCs ("Code").** Memorandum Circular No. 2012-07 was approved on November 28, 2012. The Code provides for the composition of the Governing Board, establishment of an audit committee, and appointment of the Chief Finance Officer. However, given the number of repeat audit findings carried over from year to year, the effectiveness of these arrangements could be strengthened. All members of the Board must be qualified by the Fit and Proper Rule adopted by the GCG, including by reference to the qualifications expressly provided for in the Charters or By-laws of the GOCCs. Due regard must be given to integrity, experience, education, training, and competence. To further reinforce the Code, the GCG also established a Corporate Governance Scorecard for GOCCs, which is to be implemented on all GOCCs being covered by the Governance Commission.

81. **The Code requires every GOCC to maintain a Manual of Corporate Governance to promulgate and adopt its corporate governance rules and principles.** The Manual is required to be submitted to the GCG.

Table 9. Summary of Principal Statutory Financial Reporting Requirements for the Corporate Sector

Applicable companies	Legislation	Key financial reporting requirements
Listed and non-listed corporations	**The Corporation Code of the Philippines or Batas Pambansa No. 68**	BP no. 68 Section 141 – Annual report of corporations
	The SRC or RA No. 8799	SRC Chapter V – Reportorial Requirements
		SRC Rule 68, as amended (2011 version) – Part I General Financial Reporting Requirements; and Part II Additional Requirements for Issuers of Securities to the Public

[73] International Standards of Supreme Audit Institutions 1701 (equivalent to PSA 701) is due for adoption by COA before the end of 2017. Once adopted, the standard will apply to audits of financial statements for the period ending December 31, 2017.

Table 9. Summary of Principal Statutory Financial Reporting Requirements for the Corporate Sector

Applicable companies	Legislation	Key financial reporting requirements
SEC-registered and regulated corporations	**Revised Code of Corporate Governance -** SEC Memorandum Circular (MC) no.6, s2009 and as amended through SEC MC no.9, s2014	Accountability and Audit
Listed companies	**Code of Corporate Governance for Publicly-Listed Companies -** SEC MC no.19, s2016	Disclosure and Transparency
Banks	**General Banking Law or RA No. 8791**	General Banking Law Section 60 – Financial statements
	Guidelines in Strengthening Corporate Governance in BSP Supervised Financial Institutions – BSP Circular no. 749, s2012	Section 6 - Reports
	BSP Manual of Regulations for Banks	Section X190 – Audited Financial Statements of Banks
Life and nonlife insurance companies	**New Insurance Code or RA No. 106**	Insurance Code Sections 189 – Financial Reporting Framework and 231 – Accounting rules and regulation
	Pre-Need Code or RA No. 9829	Pre-Need Code Section 42 – Annual Audited Financial Statements
	Code of Corporate Governance Principles and Leading Practices – IC Circular no. 31, s2005	Accountability and Audit
Cooperatives	**The Philippine Cooperative Code of 2008 or RA No. 9520**	Chapter IX – Audit, Inquiry and Members' Right to Examine
Electric cooperatives	**National Electrification Administration Reform Act of 2013 or RA 10531**	Section 12 – Registration of All Electric Cooperatives (submission of the reportorial requirements, which include audited financial statements)
GOCCs	**The State Audit Code of the Philippines or Presidential Decree (PD) No. 1445**	Section 121 – Financial reports and statements
	Code of Corporate Governance for GOCCs – GCG MC No. 2012-07	Chapter VIII – Disclosure and Transparency Requirements

The Accountancy Profession

82. **The practice of accountancy in the Philippines is regulated through the Philippine Accountancy Act of 2004**[74]. The Act shall provide and govern the following: (a) standardization and regulation of accounting education; (b) examination and registration of CPAs; and (c) supervision, control, and regulation of the practice of accountancy in the Philippines.

83. **The PRC is the national government agency mandated to enforce laws regulating the various professions.** Its mandate includes conducting and administering licensure examinations to aspiring professionals, and regulating and supervising the practice of the professions exercised in partnership with the 43 Professional Regulatory Boards. These Boards govern their respective professions' practice and ethical standards, and accredit the professional organization representing the professionals. One of the PRC's functions is to investigate violations based on the professional standards and adjudicate administrative and other cases against erring examinees and professionals. Annex 7 summarizes the enforcement measures and actions by regulators.

84. **The BOA is charged with regulating the accounting profession.** It consists of a Chairman and six members appointed by the President of the Philippines from a list of three recommendations for each position and ranked by the Commission, from a list of five nominees for each position submitted by the accredited national professional organization of certified public accountants.

85. **A number of initiatives have been undertaken by the BOA to develop the accounting profession's brand and attract students to pursue a career in accounting.** Some of these initiatives have been undertaken under the "Six-point expanding horizons strategic plan" which included "Enhance the image and reputation of the Accounting Professional". The initiatives include: the production of a 7-minute video ("I am an Accountant"), the introduction of a volunteer program, an Internship Program, publication of a news magazine, and the establishment of the "Accountancy team extemporaneous speaking tournament".

Table 10. PICPA new membership 2014-16[75]

Members	2014	2015	2016
Male	504	504	1,360
Female	1,139	1,805	2,973
Total	**1,643**	**2,309**	**4,333**
CPA Passers	5,230	7,600	8,216
% of new PICPA members vs. CPA passers	**31%**	**30%**	**53%**

86. **PICPA is the recognized national professional organization and the accredited professional organization for CPAs.** Formed in 1929, PICPA was recognized in 1975 by the PRC as an official body represented by members in the public practice, industry, government, and education sectors in the Philippines. PICPA employs 17 full-time staff members, and owns the building which serves as the PICPA Secretariat's office. It derives its revenue from annual membership fees -- 1,000 pesos ($ 20) per member, to which regional divisions may add a regional fee of around 200 pesos ($ 4). Another source of revenue is CPD, including a fee "per head" of 50 or 100 pesos ($ 1 or 2) for each CPD course delivered in the regions, and 20 pesos ($ 0.40) for CPD delivered in the Metro Manila district.

[74] RA No. 9298 which was approved by the President of the Philippines on May 13, 2004
[75] Source: PICPA

Accreditation of CPD providers and programs is another source of income. Looking at the data on PICPA new membership for the past three years (Table 11), a number of CPAs who recently passed the examination do not automatically commit to become active members of PICPA.

87. **PICPA is a member of the ASEAN Federation of Accountants (AFA), a key regional accounting organization that has been formally recognized by the ASEAN Secretariat**. AFA's mission is to "provide an organization for ASEAN Accountants for the further advancement of the status of the profession in the region with the view to establishing an ASEAN philosophy on the accounting profession". It has commenced discussions with the International Federation of Accountants (IFAC) about becoming a recognized regional organization. AFA intends to develop a strategic plan and as part of that process will need to consider its future mandate and the role its member organizations want it to play in development of the ASEAN accounting and auditing profession. Achieving mutual recognition amongst its members in the area of accountancy services is one of AFA's goals, which should lead to harmonization of standards and practices amongst members.

88. **PICPA is also the founding member of the Confederation of Asian and Pacific Accountants, which is currently hosted in Malaysia.** This is a regional organization representing 32 national professional accountancy organizations operating in Asia and the Pacific. It is one of four regional organizations recognized by IFAC. The Confederation of Asian and Pacific Accountants provides the structure to enable relationship building and knowledge sharing among professional accountancy organizations operating in the region and to undertake specific activities consistent with the organization's vision and mission which is to develop, coordinate, and advance the accountancy profession in the Asia-Pacific region.

89. **In addition to meeting the education requirements (see the "Education" Section of this report) becoming a licensed auditor able to sign audit opinions involves additional steps including a 3-year meaningful practical experience requirement and accreditation by the BOA**. Additional accreditation(s) may need to be obtained, such as with the SEC, BSP, IC or BIR, depending on the regulatory body that regulates the audit client. A licensed auditor may, therefore, be required to register with multiple regulatory agencies.

90. **Single practitioners and partnerships in public practice shall be registered CPAs in the Philippines.** A certificate of accreditation shall be issued to the CPA in public practice only upon showing, in accordance with rules and regulations promulgated by the BOA and approved by the PRC, that such registrant has acquired a minimum of three years meaningful practical experience in any of the areas of public practice, including taxation. Individual practitioners and firms or partnerships in public practice, including their partners and staff, are required to be accredited by the PRC and the BOA every three years.

91. **Requirements for accreditation of CPAs in public practice need to be simplified.** The BIR, SEC, BSP, IC, NEA and the CDA all require accreditation of external auditors for entities they are responsible for regulating, in addition to the BOA accreditation (Refer to Annex 5 and 6 for CPA accreditation requirements per Agency). A Memorandum of Agreement was executed in 2009 binding the BOA, SEC, BSP, and the IC for simplified and synchronized accreditation requirements for external auditor and/or auditing firm. However, SMPs still identify a need to rationalize various accreditation requirements by the different regulators. Present data shows that there are only approximately 6,500 public practitioners registered with the BOA and/or BIR, and less than 20% have pursued further

accreditations. These registrations entail additional costs to SMPs for application fees, and other redundant administrative requirements. There is interest in one "passport" – a single form of accreditation by the three regulatory institutions, the SEC, BSP, and IC. However, it should be noted that it is common and consistent with the Basel Principles for banking supervisors to impose additional and more stringent requirements for auditors to audit banks and other financial institutions because these audits are specialized and include substantial public risk.

92. **Compliance with the 3-year meaningful experience requirement must be demonstrated by CPA applicants.** The implementing rules and regulations of RA 9298 provides that meaningful experience shall be considered as compliance with the requirements of the law if it is earned in any one of four areas of practice: (a) Commerce and Industry, (b) Academia / Education, (c) Government, or (d) Public Practice. There is a perception that evaluation of experience requirements is not fully competency-based, nor in compliance with international best practices and IFAC International Education Standards. The reforms proposed by CHED (*see section on Education*) aim to address these shortcomings.

93. **There are more than 175,000 CPAs registered in the Philippines, of which over 6,500 are currently active CPAs in Public Practice.** PICPA has over 135,000 members of which 25,000 are currently in good standing. The PICPA organization consists of the National Office (supported by a National Secretariat), the geographical areas, the regions, the chapters, and the general membership. Membership is distributed into different sectors, as follows: (a) Commerce and Industry 36%; (b) Public Practice 25%; (c) Government or Public Sector 16%; (d) Education 4%; (e) Others 19%[77]. Data from AFA as of January 2016 is roughly consistent with the PICPA membership (see Table 12). The first four sectors correspond to those recognized by PICPA, which endeavors to have equal sectoral representations in all its offices from the National Office to its chapters and affiliates. Each Regional Unit elects four Regional Sectoral Representatives who are tasked with the professional development of each particular sector through participation in an accredited CPD program.

Table 11. PICPA Membership by Sector as of January 2016[76]

Sector	Male	Female	Total	%
Public Practice	9,844	16,678	26,522	20%
Commerce & Industry	19,477	39,469	58,946	44%
Academia	1,252	2,119	3,371	2%
Government	4,806	11,746	16,552	12%
No sector	9,616	20,106	29,722	22%
Total	**44,995**	**90,118**	**135,113**	**100%**
Gender Percentage	**33%**	**67%**		

94. **Although PICPA reports that roughly two-thirds of its members are female, this ratio is not representative of higher level positions in the largest public accounting firms.** The percentage of female partners and principals is reported to be 50%, while females represent less than one-third of firm executives.[78] Similarly, only two of the seven BOA board members are female. This may be

[76] Source: PICPA
[77] The AFA training and development analysis, http://www.aseanaccountants.org/files/ASEAN_Training_and_Development_Analysis_Report.pdf
[78] Statistics obtained from collective company websites of SGV, KPMG, PwC and Deloitte.

indicative of a need for viable career development paths for women in the profession. The Professional Regulations Commission and all professional regulatory boards have a Gender and Advocacy Development Program directed toward creating awareness and development of gender issues. The BoA is in the process of upgrading the CPA accreditation data infrastructure that will generate relevant information on gender issues.

95. **Under the law, the practice of accountancy shall include, but not be limited to, the following: (a) Public Practice, (b) Practice in Commerce and Industry, (c) Practice in Academia / Education, and (d) Practice in Government**. Public Practice shall constitute in a person, be it his/her individual capacity or as a staff member in an accounting or auditing firm, holding out himself / herself as one skilled in the knowledge, science, and practice of accounting, and as a qualified person to render professional services as a CPA; or offering or rendering, or both, for more than one client on a fee basis or otherwise, services as such as:

a. the audit or verification of financial transaction and accounting records;
b. the preparation, signing, or certification for clients of reports of audit, balance sheet, and other financial reports;
c. the design, installation, and revision of accounting systems and controls;
d. the preparation of income tax returns related to accounting and auditing procedures;
e. when he/she represents clients before government agencies on tax and other matters relating to accounting, or renders professional assistance in matters relating to accounting procedures and the recording and presentation of financial facts or data.

96. **The CPA title is protected by Law**. A person who is not a citizen of the Philippines shall not be allowed to practice accountancy in the Philippines unless he/she can prove, in the manner provided by the Rules of Court, that a specific provision of the law of the country of which he/she is a citizen, subject or national, admits citizens of the Philippines to the practice of the same profession without restriction. At present, no countries have included Filipino CPAs in their approved list of qualifications. However, a temporary permit may be issued by the Board, subject to the approval of the Commission and upon payment of related fees, in limited cases where the services of the expert are deemed essential for the advancement of accountancy in the Philippines.

97. **The PICPA National Office is under the management of officers elected by the members of the Board themselves**. Headed by the President, the other officers are the Executive Vice President; the Vice President for Commerce and Industry, Education, Government and Public Practice; the Vice President for Operations; the Secretary; the Assistant Secretary; the Treasurer; and the Assistant Treasurer. The Board is composed of 21 members from the regions, as well as a representative from each of the four sectors of the profession. The President is elected annually but rotated among the regional directors and, to the extent practicable, among the four sectors.

98. **Through PICPA, the Philippines is actively represented in the world's major international, and relevant regional, accounting bodies**. In addition to being a full member of IFAC, PICPA is a member of the Confederation of Asian and Pacific Accountants, as well as a member of the AFA. PICPA has assumed overall leadership of these organizations on a number of occasions and has been taking active roles in the pursuit of their respective goals.

99. **PICPA performs four important functions**: (i) Implementing the Code of Ethics promulgated by the BOA, (ii) overseeing implementation of the CPD Program, (iii) publishing pronouncements of the Accounting Standards Council and the Auditing Standards and Practices Council, the quarterly *Accountants' Journal*, and the quarterly *Accounting Times*, and (iv) advocating on behalf of the accounting profession.

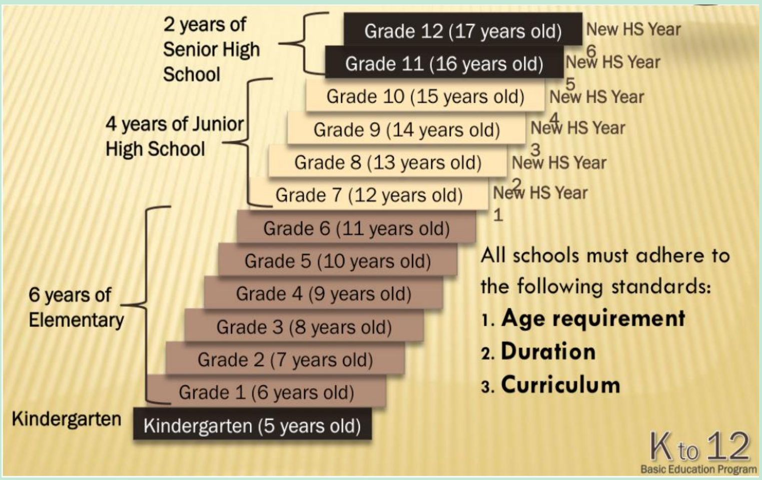
100. **Four sectoral associations have been organized in the Philippines under the umbrella of PICPA, which reflect the recognized areas of practice**: (a) Government Association of Certified Public Accountants, (b) Association of Certified Public Accountants in Public Practice, (c) Association of Certified Public Accountants in Commerce and Industry, and (d) Association of Certified Public Accountants in Education. Some of these sectoral associations are quite large; they have their own chapters and website, and organize their own CPD events and seminars.

101. **The Institute of Internal Auditors Philippines was established in Manila in 1948.** In 1982 its "Philippine Chapter" was registered with the SEC. In 2016, it reached its highest level of membership with 2,600 members.

Professional Education and Training

102. **The academic year in the Philippines starts in June and ends in March, covering a period of 40 weeks**. Institutions of higher education operate on a semester system with an optional summer semester. A number of prominent universities have recently changed their academic calendars to start the year in August, in line with international and regional norms. The Department of Education is considering a comprehensive change to this new calendar to bring it in line with other Southeast Asian nations. English was the official language of instruction from 1935 to 1987. The new Constitution of 1987 prescribed that both Filipino and English are the official languages of communication and instruction. English continues to be widely used from the higher primary levels onwards.

Box 3. K-12 Basic Education Model[79]



103. **To help better prepare students for post-secondary training, or to enter the workforce directly, the country began implementation of major structural and curricular reforms with the Kindergarten Act of 2012 and the Enhanced Basic Education Act of 2013.** Together, they extended formal education from just 10 years to 13 years under a Kindergarten through Grade 12 system (K-12) by adding a mandatory year of Kindergarten and two years of senior high school (refer to Box 3).

[79] Source: Department of Education

104. **The transition period will end with the 2017-2018 school year, when the first cohort graduates from the new primary and junior high cycles**. Those graduating from the four-year junior high cycle will be the first in the nation to undertake the new two-year senior high school curriculum. The new high school curriculum includes core classes and specialization classes based on students' choice(s) of specialization. For their specialization classes, students choose from four tracks: academic; technical-vocational-livelihood; sports; and arts and design. Students in the academic track choose from the following areas or strands: a) accountancy, business and management; b) humanities and social sciences; and c) science, technology, engineering and mathematics. High school leavers having followed the accountancy, business and management academic track will have completed some basic bookkeeping courses, and be able to either work in small or micro enterprises, or pursue an accounting degree.

105. **Entrance to universities and other institutions of higher education is dependent on the possession of a high school Certificate of Graduation and, in some cases, on the results of the National Secondary Achievement Test.** Many colleges and universities either set their own entrance examinations, or make acceptance into a degree program conditional upon student grades. Accounting is a highly valued degree, and universities in the Philippines typically receive thousands of applications.

106. **Bachelor's degree programs are a minimum of four years in length. During the first two years of study, students are required to take general education courses; courses counting towards the major are usually undertaken in the last two years of the program**. Some institutions offer a two-year associate degree program, usually in arts, science or commerce. Associate degrees in accounting or accounting technology are available. Graduates of these programs can, if desired, transfer into the last two years of a Bachelor's degree program. The majority of graduates from accounting degree programs end up working in accounting firms or the financial sector.

107. **Master's degrees usually require one or two years of full-time study and a minor thesis, comprehensive examinations, or a project**. The entrance requirement for most Master's degree programs is a Bachelor degree in an appropriate discipline, with an average grade equal to or better than 85%. Master's degree programs in business administration and public administration are widely available in the Philippines. There are limited institutions which offer a Master's degree program in accountancy.

108. **Doctor of philosophy programs often involve a substantial amount of coursework, while the dissertation may comprise as little as a quarter or a fifth of the total credits**. Ph.D. programs usually require two or three years of full-time study beyond the Master's degree. The entrance requirement is usually a Master's degree, with an average grade equal to or better than 85%. Several universities offer PhD programs in business administration or public administration, but only a few in accountancy.

109. **The Higher Education Act (1994) created CHED.** Among other things, CHED is responsible for (i) formulating and recommending development plans, policies, priorities, and programs on higher education; (ii) setting minimum standards for programs and institutes of higher education; (iii) monitoring and evaluating the performance of programs and institutions; and (iv) imposing sanctions for poor performance (e.g., subsidy reductions, withdrawal of accreditation, program termination and closures).

110. **In addition to regulating higher education, CHED is also responsible for developing policies to support quality improvement in the higher educational system**. As a matter of policy, CHED encourages institutions to seek accreditation and provides a number of incentives in the form of progressive deregulation, as well as grants and subsidies to institutions with accredited programs. However, all educational programs can operate legally if they have government recognition in the form of applying for and receiving a grant of authority and official recognition to operate.

111. **The issuance of Department of Education, Culture and Sports[80] Order No.5 (1991) established a Bachelor of Science in Accountancy ("BSc Accountancy") as a fully-fledged independent course.** CHED has since taken over responsibility for coordinating tertiary education. In 2001, CHED set the curriculum requirements for the BSc Accountancy, adopting an outcomes-based approach, and striving to meet international best practices. It provided a sample curriculum, based on 210 credit-units over a four-year period. The standards set by CHED establish minimum requirements which Higher Education Institutions have to comply with; however, they retain some autonomy in the areas of curriculum design and innovation, and have the ability to offer the BSc Accountancy over a 5-year period. The breakdown of the sample curriculum is provided in Table 13.

Table 12. Sample curriculum - Bachelor of Science in Accountancy

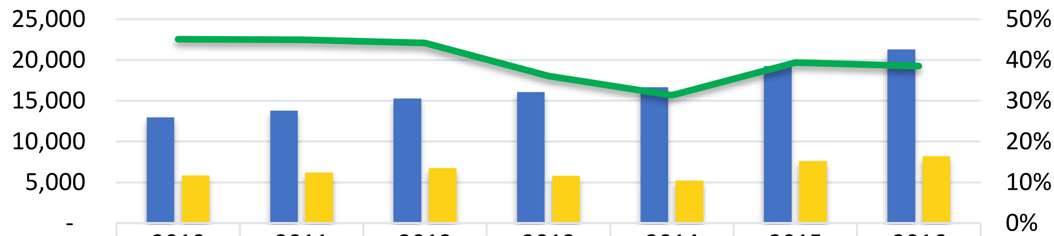
Curriculum	Minimum Prescribed Units
1. Core Courses	**93**
1.1 General Education	51
1.2 Basics Business Core	42
2. Professional Education	**103**
2.2 I.T. Education	9
2.3 Accounting and Finance Education	94
3. Physical Education (PE) / National Service Training Program (NSTP)	**14**
TOTAL	210

112. **The Philippines has a total of over 2,000 institutions of higher education, of which over 1,500 are in the private sector. An accredited BSc Accountancy Program is offered by over 100 public and around 500 private institutions**. The quality of these programs differs substantially if assessed on the basis of graduate success in the CPA Licensure examination. Considering an average CPA pass rate of 40% from 2010 to 2016, 68% of schools offering a BSc Accountancy Program have a pass rate below the national average.

[80] Now called Department of Education (DepEd)

113. **Both CHED and BOA have been working on evaluating and reforming the programs of poor performing institutions.** Cooperation between BOA and CHED is facilitated by BOA's presence on CHED's technical committee. CHED has implemented a monitoring instrument, and conducted site visits, which have enabled it to identify the causes for low performing programs. CHED is able to draw on specific funding and support mechanisms to address issues identified. CPA licensure examination statistics cannot be taken at face value, as some institutions have the ability to "coach" a small number of students who are encouraged to take the licensure examination, which then ensures the program can continue to be offered despite a poor track record over a number of years.

Figure 5. CPA Examination Annual Passing Rate



	2010	2011	2012	2013	2014	2015	2016
Takers	12,988	13,784	15,302	16,061	16,677	19,276	21,315
Passers	5,859	6,196	6,767	5,799	5,230	7,600	8,216
Percentage	45%	45%	44%	36%	31%	39%	39%

Takers Passers Percentage

114. **CHED's qualification requirements for the faculty teaching undergraduate accounting programs address a range of factors including qualifications, professional experience, classroom teaching ability, and computer literacy**. Current policies and standards for graduate programs in accountancy are laid out in CHED Memorandum Order No. 3 Series 2007 and CHED Memorandum Order No. 43 Series 2010. All faculty teaching accounting and finance courses are required to possess the following qualifications: (1) Registered as a professional accountant in the Philippines with a current PRC identification card; (2) Holder of a valid certificate of accreditation as accounting teacher from the BOA/PRC; (3) Holder of at least a Master's degree in accountancy, or other related area of studies[81]; (4) Must have earned twelve units of professional education subjects or equivalent program (e.g., teaching and learning philosophies, test and measurements); (5) Three years of relevant practical experience (in the fields of public practice, commerce and industry, or government); (6) Member in good standing of the accredited professional organization for CPAs; and (7) Must be of good moral character. Refer to Annex 9.E for geomapping analysis of CPAs accredited as accounting teachers.

115. **The Accountancy Law 1923 established the CPA title for those who passed a written licensure examination. The BOA, under the oversight of the PRC, determines and prescribes the minimum requirements for CPA licensure.** The current CPA licensure requirements include completion of an undergraduate degree in accountancy from a CHED- accredited University, and successful completion

[81] Teachers are given 5 years from the time of their appointment as full time faculty to complete a Master's Degree qualification. Publication in a peer-reviewed journal or textbook is also required.

of the CPA Licensure examination. The CPA License can be renewed every three years, subject to demonstrating compliance with CPD requirements (which are explained below).

116. **The current CPA Licensure examination is offered twice a year (usually in May and October). It is often taken shortly after completion of a BSc in Accountancy degree and is administered exclusively through multiple choice questions**. The current licensure examination for CPAs covers the following subjects: (a) theory of accounts, (b) business law and taxation, (c) management services, (d) auditing theory, (e) auditing problems, (f) practical accounting problems I, and (g) practical accounting problems II. To pass the exam, a candidate must obtain an overall average of 75 percent, with no grades in any subject lower than 65 percent. There are several private "Review Centers" where CPA candidates can enroll to prepare for the licensure examination. The content of the CPA Licensure examination is not compliant with IFAC's International Education Standards (IES) as it does not address some of the competency areas listed in IES 2 "Initial Professional Development – Technical Competence": Governance, risk management and internal control, business and organizational environment, economics, business strategy and management, information technology. It is unlikely that all these competencies would be included in the degree program completed to be eligible to write the CPA examination. IES 3 "Initial Professional Development – Professional Skills" and IES 4 "Initial Professional Development – Professional Values, Ethics, and Attitudes" list a range of competencies which the CPA Licensure examination cannot address in its existing format and content. The anticipated overhaul of the CPA Licensure which is explained further below will aim at achieving full compliance with IFAC's IESs.

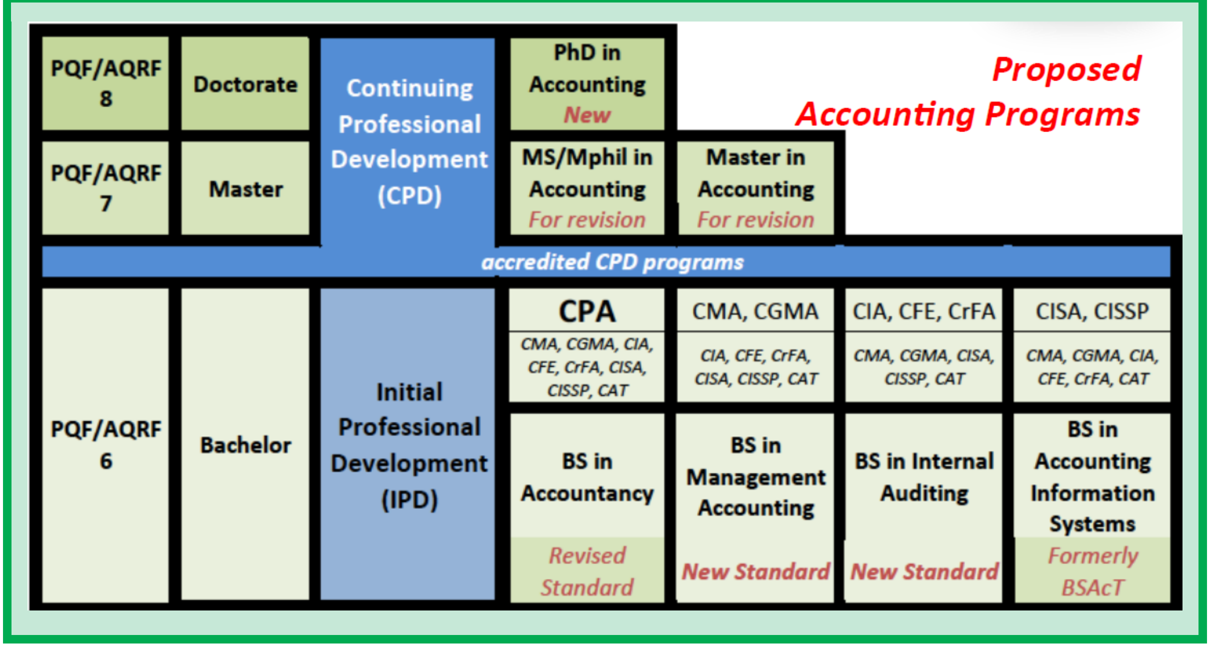
117. **A new framework for tertiary education for accountants and auditors is due to be implemented over the next few years**. The reform is the result of number of factors, including the K-12 educational reforms, regional integration efforts with ASEAN neighbors, the release of IFAC's new IESs, as well as the need to harmonize the licensing requirements.

118. **At the undergraduate level, the revised model involves students being required to choose either one of three additional specializations offered, or the revised BSc Accountancy track.** The three additional specializations are: (1) Bachelor of Science in Management Accounting; (2) Bachelor of Science in Internal Auditing; (3) Bachelor of Science in Accounting Information Systems. These specializations are due to be made available to students by academic year 2018/2019. The detailed curriculum for each of the specializations is in the process of being finalized.

119. **The four tracks are being prescribed, but not mandated. They will share a "common core" of competencies required of accountants and auditors in accordance with IFAC IESs**. At the moment, universities (partly as a result of the need to demonstrate a high pass rate at the CPA licensure examination) have very stringent retention requirements for the BSc Accountancy Programs, and students whose performance is sub-standard are denied an opportunity to continue their studies on that track, and generally required to transfer to a less prestigious alternative track of accountancy studies. This is despite the fact that the majority of students completing the current BSc Accountancy program will not pursue a career for which a CPA License is required. By prescribing a minimum curriculum for three alternative tracks, CHED's objectives are to: (a) ensure other paths are available to students but incorporate a "common core" of accounting knowledge and competencies in accordance with IFAC IESs; and (b) prepare accounting graduates for the diversified work opportunities both in the Philippines and overseas. An overview of the proposed framework is

included in **Box 4**. Refer to **Annex 8** for a detailed discussion on the envisioned 2-tiered CPA framework.

Box 4. Philippine Accountancy Education Framework[82]



120. **There are 217 accredited universities in the country that offer courses aligned with the certified accounting technician program syllabus.** This is a globally recognized program of the Philippines National Institute of Accounting Technicians that grants the certified accounting technician title or designation to successful candidates or members worldwide. It is designed to be an intensive bookkeeping program. Graduate students of accredited providers are qualified to take the Certified Accounting Technician Challenge Exam. At least one year of relevant experience after passing the exams is required to fully become an Accounting Technician. The Accounting Technician designation is relatively new in the Philippines marketplace but is commonplace worldwide to identify a range of accounting or bookkeeping occupations in all industries and sectors.

121. **CPD requirements for CPAs were also recently reformed through laws and regulations**. The changes were enacted through RA No. 10912 of July 26, 2015, PRC Resolution No 2013-774 Series of 2013. The reform ensured continued compliance with IFAC's CPD requirements by gradually increasing the three-year requirement from 60 to 120 hours, but also shifting from a thematic approach to a competency-based approach. This change represents real progress as the inclusion of online learning, self-directed learning, and professional work experience ensures the training needs of an increasingly specialized profession can be met.

122. **The new CPD requirements are greatly misunderstood, and considered as too burdensome by many.** They have been extended to members in academia in coordination with CHED. 120 hours are considered excessive when compared to the CPD requirements of many of the other professions in the Philippines. Even though the new requirement provides broader, more flexible options for

[82] Source: Commission on Higher Education

compliance, the process of accreditation of CPD providers is perceived as being burdensome, and accredited CPD offerings as being unsuitable for sectoral needs, such as those of CPAs employed in the insurance or government sectors. There is also concern about the lack of available training in the provinces and regions, one reason cited was due to insufficient accredited trainers.

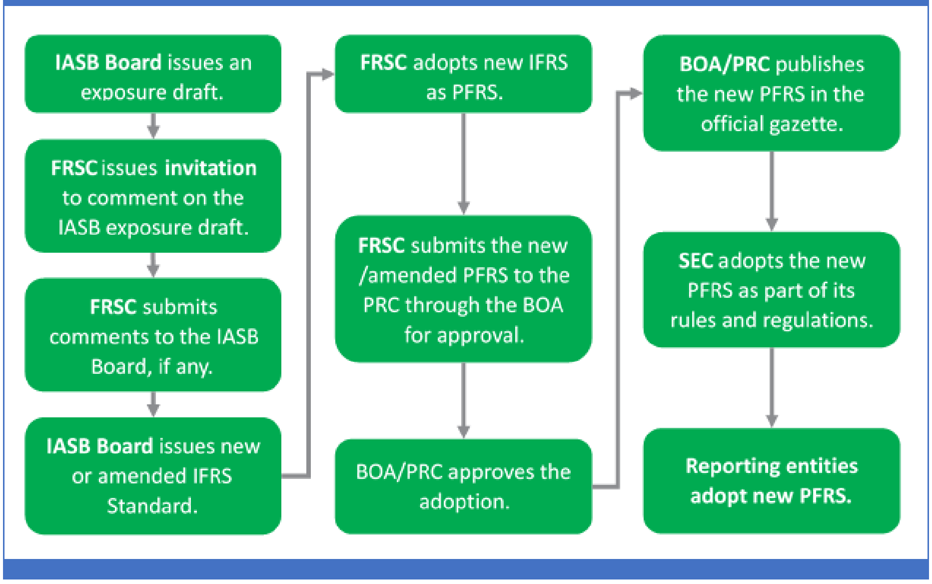
Setting Accounting Standards

123. **The FRSC was established by BOA in 2006, under the implementing rules and regulations of the Philippine Accountancy of Act of 2004, to assist the Board in carrying out its power and function to promulgate accounting standards in the Philippines.** The FRSC's main function is to establish generally accepted accounting principles in the Philippines. The FRSC formed the Philippine Interpretations Committee[83] in August 2006 to assist the FRSC in establishing and improving financial reporting standards. The role of the committee is principally to issue implementation guidance on PFRSs. The committee members[84] are appointed by the FRSC and include accountants in public practice, academia and regulatory bodies, and users of financial statements.

124. **The FRSC monitors the technical activities of the IASB and provides comments on exposure drafts of proposed IFRSs as these are issued by the IASB.** When finalized, these are adopted as PFRS. The FRSC similarly monitors issuances of the IFRIC of the IASB, which it adopts as Philippine Interpretations–IFRIC. PFRS and Philippine Interpretations–IFRIC approved for adoption are submitted to the BOA and PRC for approval.

125. Following are the steps followed by the FRSC on the adoption of new IASB Board pronouncements as PFRS:

Figure 6. FRSC Process



126. **Since FRSC is adopting standards issued by the IASB, it is infrequent that a discussion paper will be issued, nor will there be local public consultations and eventual publication of the responses.** When deemed necessary, discussion papers are prepared for purposes of studying the impact of a new

[83] http://www.picpa.com.ph/attachment/6302016161515885.pdf
[84] http://www.picpa.com.ph/attachment/6302016161825620.pdf

standard to local companies. For example, before adopting IFRS 15 Revenue from Contracts with Customers, the FRSC commissioned the Philippine Interpretations Committee to conduct a study on the impact of IFRS 15 to the local real estate companies. Public consultation is not a statutory requirement. Post-implementation reviews are not performed by FRSC but reliance is placed on auditing firms to implement the standards.

127. **The SEC, having jurisdiction and the power to supervise all corporations in the Philippines, has the power to prescribe the applicable financial framework to be used by the said corporations.** It adopts accounting pronouncements issued by the FRSC as part of its rules and regulations as soon as the accounting pronouncements are: (1) approved by the BOA and the PRC and (2) published in the Official Gazette.

Box 5. Composition of the FRSC

Chairman	1
Representatives from:	
Board of Accountancy	1
Securities and Exchange Commission	1
Bangko Sentral ng Pilipinas	1
Bureau of Internal Revenue	1
Commission on Audit	1
Major organization composed of preparers and users of financial statements (e.g., Financial Executives Institute of the Philippines)	1
Philippine Institute of CPAs:	
Public Practice	2
Commerce and Industry	2
Academia/Education	2
Government	2
Total	**15**

128. **The Chairman of the FRSC shall be appointed by the PRC upon recommendation of the BOA.** The FRSC shall make an annual review of the composition of their respective councils and may recommend to PRC and BOA a more suitable representation as they deem fit. Members of the FRSC shall have a term of three years renewable for another term. Some members of the FRSC are nominated by the PICPA while some are nominated by their respective organizations (BSP, BIR, Financial Executives Institute of the Philippines, SEC). The members of the FRSC are then approved by the BOA. Philippine Interpretations Committee membership is by nomination by the respective accounting firms, by BSP, SEC, IC, PICPA, and then approved by FRSC. BOA members and SEC commissioners are appointed by the Office of the President.

129. **The BOA and SEC are funded by the government. Although FRSC and the Philippine Interpretations Committee were created through BOA, the councils have no specific budget provision in the General Appropriations Act.** Appointed members from accounting firms in the council contribute their own resources for FRSC and Philippine Interpretations Committee operations. The FRSC is supposed to receive annual funding from the PICPA Foundation (formerly 100 thousand pesos or approximately $ 2,100) but reduced two years ago to 50 thousand pesos ($ 1,050), however release of the funding is not regular.

130. **On November 22, 2016, the SEC released a new Code of Corporate Governance for Publicly-Listed Companies[85].** The intent of this new Code is to raise the corporate governance standards of Philippine corporations to a level at par with its regional and global counterparts by:

a. increasing the responsibilities of the board and ensuring the competence and commitment of the directors;

b. strengthening the protection of shareholders and other stakeholders; and

c. promoting full disclosure and transparency in both financial and non-financial reporting.

The main feature of this new Code is the adoption of the 'comply or explain" approach, which differs from the combined mandatory/voluntary approach of the previous Revised Code of Corporate Governance issued by the SEC. This approach combines voluntary compliance with mandatory disclosure. Companies do not have to comply with the new Code but they must disclose in their annual corporate governance reports whether they complied with the Code provisions, identify any area of non-compliance, and explain the reasons for non-compliance and how the over-all corporate governance principle recommended in the Code is still being achieved.

131. **The new Code induces a Principle (Principle 10) on "Increasing Focus on Nonfinancial and Sustainability Reporting".** Under this Principle, it is recommended that companies adopt a globally recognized standard/framework in reporting sustainability and non-financial issues, such as: the G4 Framework by the Global Reporting Initiative, the Integrated Reporting Framework by the International Integrated Reporting Council and/or the Sustainability Accounting Standards Board's Conceptual Framework. Integrated/Sustainability Reporting combines the most material elements of information currently contained in separate reports - such as financial, management commentary, governance and remuneration, and sustainability - into a single coherent whole. The global financial crisis, persistent economic disparities, climate change, and evidence of corporate governance failures are just some of the issues that are raising the profile of corporate transparency among regulators, civil society bodies, and the general public[86]. Integrated/Sustainability Reporting brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates to provide a clear and concise representation of how an organization demonstrates stewardship and how it creates value, now and in the future.

Setting Auditing Standards

132. **The AASC was created by the BOA pursuant to the Accountancy Act of 2004.** To date, the AASC is composed of 18 members.

133. **The Chairman and members of the AASC are appointed by the PRC upon the recommendation of the BOA.** Each member-organization nominates its representative and these are submitted to BOA for appropriate consideration. The Chairman of the AASC should be someone who has been or is presently a senior practitioner in public practice. The AASC is directly accountable to the PRC and BOA.

[85] SEC Memorandum Circular No. 19 Series of 2016
[86] Integrated Reporting: Lessons from the South African Experience, Hanks and Gardiner

134. **All current international standards on auditing (ISAs) have been adopted by the AASC as PSAs.** The AASC submits to the PRC BOA all its adopted standards for approval and publication. The standards are mandated upon corporations through a memorandum circular issued by the SEC. The 2016 ISAs are currently in use. Until second semester of this year, ISAs were being modified to consider local practices and regulatory requirements. Box 7 shows the status of the new ISA issuances (referred to as PSAs in the Philippines)[87].

135. **Starting with the latest ISAs 800, 805, & 810, the AASC no longer modifies the standards for adoption as Philippine Standards on Auditing (PSAs).** Instead of modification of the title and contents of ISA as issued by the International Auditing and Assurance Standards Board, the AASC prepares and attaches to the ISA a Preface containing a statement on the AASC adoption and the provisions on the implementation of the standard taking into consideration any applicable local practices and regulations, which are rare.

Box 6. Composition of the AASC

Chairman	1
Representatives from:	
Board of Accountancy	1
Securities and Exchange Commission	1
Bangko Sentral ng Pilipinas	1
Commission on Audit	1
Association of CPAs in Public Practice	1
Philippine Institute of CPAs:	
Public Practice	9
Commerce and Industry	1
Academia/Education	1
Government	1
Total	**18**

Box 2. Status of new ISA Issuances adopted as PSA in the Philippines

Approved by AASC, BOA, PRC, SEC and published in the Official Gazette
1. PSA 610 (Revised 2013) Using the Work of Internal Auditors and Related Conforming Amendments;[88]
2. PSAE 3410 Assurance Engagements on Greenhouse Gas Statements;[89]
3. PSRS 4410 (Revised) Compilation Engagements;[90] and
4. PSRE 2400 (Revised) Engagements to Review Historical Financial Statements.[91]

[87] Status as of September 2016
[88]http://www.aasc.org.ph/new_std_sept2016/PSA%20610%20(Revised%202013)%20Using%20the%20Work%20of%20Internal%20Auditors.pdf
[89] http://www.aasc.org.ph/new_std_sept2016/PSAE%203410%20greenhouse%20gas.pdf
[90] http://www.aasc.org.ph/new_std_sept2016/PSRS%204410%20(Revised)%20_compilation%20engagements.pdf
[91] http://www.aasc.org.ph/new_std_sept2016/PSRE%202400-(Revised)-Engagements-to-Review-Historical-Financial-Statements_Final.pdf

Box 2. Status of new ISA Issuances adopted as PSA in the Philippines

Approved by AASC, BOA, PRC, SEC and pending publication in the Official Gazette
1. PSA 260 (Revised), Communication with Those Charged with Governance;[92]
2. PSA 570 (Revised), Going Concern;[93]
3. PSA 700 (Revised), Forming an Opinion and Reporting on Financial Statements;[94]
4. PSA 701 (Revised), Communicating Key Audit Matters in the Independent Auditor's Report;[95]
5. PSA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report;[96]
6. PSA 706 (Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report;[97]
7. PSA 720 (Revised), The Auditor's Responsibilities Relating to Other Information.[98]
Approved by AASC and for submission to BOA and PRC
1. PSA 800 (Revised), Special Considerations - Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks;
2. PSA 805 (Revised), Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement;
3. PSA 810 (Revised), Engagements to Report on Summary Financial Statements.

136. **The AASC posts on its webpage copies of new and revised standards. Some member-organizations also provide links to the AASC site on their respective webpages.** All of these are accessible by stakeholders. The BOA publishes adopted new and revised standards in the Official Gazette.

Audit Regulation

137. **International good practices favor creation of an independent audit oversight system, including effective quality assurance for auditors.** Typical functions include regularly inspecting the quality control systems that firms have adopted to see if they are effectively designed and implemented; regularly inspecting some of the individual audits performed by firms to assess their adequacy; developing measures to induce firms to address any deficiencies found in their quality control system; and conducting investigations and imposing discipline to address the most serious deficiencies, deter

[92] http://www.aasc.org.ph/new_std_sept2016/PSA%20260%20(Revised)%20-%20clean.pdf
[93] http://www.aasc.org.ph/new_std_sept2016/PSA%20570%20(Revised)%20-%20clean.pdf
[94] http://www.aasc.org.ph/new_std_sept2016/PSA%20700%20(Revised)%20-%20clean.pdf
[95] http://www.aasc.org.ph/new_std_sept2016/PSA%20701%20-%20clean.pdf
[96] http://www.aasc.org.ph/new_std_sept2016/PSA%20705%20(Revised)%20-%20clean.pdf
[97] http://www.aasc.org.ph/new_std_sept2016/PSA-706%20(Revised)%20-%20clean.pdf
[98] http://www.aasc.org.ph/new_std_sept2016/PSA-720-(Revised)%20with%20track%20changes.pdf

other firms from allowing similar deficiencies to occur, and removing from the market those audit firms that cannot or will not conform to professional standards.

138. **Independent auditing of corporations is one of the most complex industries to regulate properly.** Auditing complex companies does not involve just following some standard set of procedures and ticking boxes on a checklist. To be effective, an auditor must use knowledge and experience to understand the company's business and the way it estimates, records, accumulates, and reports information about its transactions, obligations, and assets; identify the specific risks that might cause some of these items to be reported inaccurately for that company, based on how it operates; design and perform tests for the particular company to obtain reasonable assurance that the financial reporting is reliable; do all of this efficiently, within a reasonable time, and at a reasonable cost. Thus, audit regulators must understand that they are not regulating a routinized activity, in which they could expect to see the same steps and procedures performed every time. This is an enormous challenge for effective regulation.

139. **An effective audit oversight system must be able to pay competitively with the leading firms in the industry it regulates.** To determine whether the auditor acted with professional competence and reasonable diligence, the regulator must become familiar with the large set of facts about the audited company that the auditor considered (or should have considered); identify and understand the procedures the auditor performed to test the company's financial reporting, as well as the audit firm's quality assurance programs that impacted the audit; and assess whether those procedures and programs appear reasonable in light of the risks of unreliable reporting that the auditor faced. Only someone highly trained and experienced in auditing can adequately perform this regulatory function. For review of some audits (e.g., financial services) industry-specialized experience may also be needed. Thus, the audit oversight authority must have the funding and flexibility to hire staff with the sophistication and experience to perform these kinds of functions, and remuneration well above typical civil-service pay scales is ordinarily needed.

140. **Creating an audit oversight system with inadequate funding or flexibility to pay salaries will likely be counterproductive.** Auditors must perform their complex function in a limited time and with limited resources. If regulators force auditors to spend time and resources on activities that do not involve identifying and addressing the real risks of inaccurate financial reporting for the companies they audit, they will have less time and fewer resources to fulfill their real and important function. A regulator that does not adequately understand modern auditing might force auditors to spend too much time on unproductive and misdirected "compliance" activities, which could actually render the profession less capable of adequately performing than it would be without an oversight system.

141. **An adequate and comprehensive oversight system has been under consideration in the Philippines for a number of years.** However, additional work needs to be done to assure an independent, effective, coordinated system and enabling legal framework. The Philippines lags behind its peers within ASEAN in this regard. Annex 2 depicts the oversight frameworks for countries within ASEAN with an independent oversight body.

142. **Under the present structure, the BOA is mandated with the power to supervise the registration, licensure, and practice of accountancy in the Philippines under the Accountancy Law (RA9298).** As such, the BOA has the authority to issue, suspend, revoke, and reinstate the Certificate of Registration for practice of the profession; prescribe and adopt a Code of Ethics; promulgate accounting and

auditing standards in coordination with the FRSC and AASC; investigate violations of rules and regulations and take remedial actions; prepare and administer the CPA licensure examination; and coordinate with the CHED on university level accounting education.

143. **The law also gives BOA the power to conduct oversight of the quality of audits of financial statements through a review of the quality control measures instituted by auditors in order to ensure compliance with the accounting and auditing standards and practices.** However, BOA has no staffing and no funding to achieve this objective. Additionally, the BOA's power to suspend or revoke CPA licenses may create or imply a conflict of interest. Stakeholders within government are reconsidering the legal framework for audit quality assurance to better align with international good practice and principles.

144. **The four sectors in the practice of accountancy shall as much as possible be equally represented in the Board.** At the time of appointment, a Board member shall:

a. Be a natural-born citizen and a resident of the Philippines;

b. Be a duly registered CPA with at least ten years of work experience in any scope of practice of accountancy;

c. Be of good moral character and must not have been convicted of crimes involving moral turpitude;

d. Not have any pecuniary interest, directly or indirectly, in any school, college, university or institution conferring an academic degree necessary for admission to the practice of accountancy or where review classes in preparation for the licensure examination are being offered or conducted, nor shall he/she be a member of the faculty or administration thereof at a time of his/her appointment to the Board; and

e. Must not be an officer or director of the professional accountancy organization of PICPA.

145. **There is no restriction against Board members being actively engaged in, or holding an interest in a firm that is actively engaged in, the practice of public accountancy. Hence, the BOA is not required to maintain independence from the profession.** The Chairman and Members of the Board shall hold office for a term of three years which may be subject to renewal only once. The BOA is funded through the PRC which receives a budget allocation through the General Appropriations Act.[99] However, the funding awarded to the BOA has historically not been sufficient to cover operating costs incurred in carrying out the full range of its duties and responsibilities. As a result, many functions have historically been provided on a pro bono basis, sometimes carried out by staff members of accounting firms in which Board members hold an interest.

146. **The Philippines has been striving to implement reforms aimed at improving audit quality, however a comprehensive system of audit quality assurance is not yet in place.** Several initiatives are in place and underway which aim to provide some assurance over audit quality. Although some level of cooperation among regulators exists, these initiatives remain fragmented and would benefit from a central coordinating council, such as the Council for Accreditation and Quality Control of Practicing CPAs, to ensure a holistic approach over audit quality assurance which addresses the needs of all stakeholders and avoids gaps and overlaps in coverage. Initiatives include:

[99] RA No. 9298 May 13, 2004, Republic of the Philippines

- The Council for Accreditation and Quality Control of Practicing CPAs ("Council") was created under a Memorandum of Agreement executed on August 12, 2009 by BOA, the SEC, BSP, and the IC, to act as a technical working group of the Financial Sector Forum and its member-agencies. The terms of reference of the Council was signed in September 2015, and includes the following: (i) to discuss policy issues on quality control standards of accredit external auditors; and (ii) to recommend possible improvements and simplification to the accreditation or selection procedures and requirements. The primary objective of the Council is to promote the reliability and integrity of financial statements of entities under regulation and supervision of Financial Sector Forum member-agencies by providing advisory assistance in the areas of accreditation/selection of external auditors and adherence to quality control standards in the conduct of audit;
- The Council completed the study "Improving Adherence to Quality Control Standards in External Auditing", which led to the adoption of the provisions and principles set forth therein by the Council members. [100]
- The Council founded the "Regulator's Forum" in 2015, in collaboration with the Philippine Institute of Certified Public Accountants and Association of Certified Public Accountants in Public Practice. This annual forum aims to apprise practitioners on the complementary role of the external auditors and regulators, and common findings noted by regulators in the evaluation of their audit work.
- Accreditation of registered auditors by the various financial regulators is required under parallel regulations which requires applicants to possess adequate audit experience and to have attended training programs and taken up Continuing Professional Development (CPD) courses. [101]
- The annual review of audited financial statements completed by the financial regulators allow the regulators to infer, to some degree, a general sense of audit quality over the accredited auditors on a continuing basis;
    - A Quality Assurance Review (QAR) Department and QAR Executive Committee were created by the BOA in 2009 and approved by the Professional Regulation Commission. The Executive Committee was granted full power and authority to set policies and supervise the operations of the Review Department, which would carry out the activities of the QAR Program. However, the Program has not been implemented and the Executive Committee is not operational[102];
- PICPA has created a Quality Control Board;
- PICPA has rolled out a Voluntary QAR Program;

---

[100] BSP Memorandum No. M2014-011 dated March 14, 2014, IC Circular Letter No. 2015-40 dated July 29, 2015, and SEC Financial Reporting Bulleting No. 19 dated June 20, 2016,
on the "Expectations for an Effective External Audit Function".
[101] BSP Circular No. 660 dated August 25, 2009, SEC Memorandum Circular No. 13 dated September 19, 2009 and IC Circular Letter dated 29-2009 dated November 10, 2009 on the revised rules and regulations relative to the selection and delisting of external auditors.
[102] In 2010, a QAR Program was developed by the BOA in collaboration with PICPA in fulfillment of this objective and mandated upon auditors. However, rollout ceased due to a court injunction filed by a group of practitioners. Efforts have been made to move forward, including stakeholder awareness workshops, mediation with petitioners, and rollout of a Voluntary QAR Program. The injunction against the QAR Program was recently lifted by the court and BOA is exploring an update of the Program in anticipation of its future rollout.

- An office verification by the BOA of CPAs in public practice including the accomplishment of a Quality Assurance Checklist[103];
- The SEC is in the process of establishing the SOAR program covering listed enterprises, expected for rollout in 2017;
- A Risk Based Red Flag System being developed by the BOA in which benchmarks will be analyzed to determine high risk engagements. [104]

147. **In addition to ensuring a holistic approach, the council coordinating QAR activities should strive to ensure that international good practice and principles are being followed.** These are presented in Annex 3. Key concepts include:

- Appropriate arrangements should be put in place for insulating the QAR body from interference by the practicing members of accountancy profession as well as other vested interest groups;
- Arrangements must be made so that the specialists who will carry out monitoring and enforcement activities on behalf of the QAR body can be remunerated according to market rates that are commensurate with the skills required for quality control work. This is especially critical for inspectors of PIE auditors, who must themselves be highly experienced auditors with as much or more technical sophistication and experience as the PIE auditors they will inspect;
- With respect to MSME auditors, such a program should initially be developmental in nature and used as a tool to build capacity of SMPs;
- The QAR body should have sufficient legal authority and specific legal powers to oversee the audit profession to help assure audit quality, particularly for the highest risk audits. The framework should ensure that the oversight body is fully independent from the profession, transparent, and acts in the public interest.
- Funding for the QAR body(ies) should be stable and sufficient;
- A risk-based approach to audit inspections should be followed.

148. **In addition to the authority for audit oversight mandated to the BOA, the SEC asserts the authority for quality assurance of SEC accredited auditors under Corporation Code of the Philippines, Section 141, Annual Report of Corporations**.[105] Section 141 specifically refers to certified financial statements of companies, but omits language specifically referring to auditor oversight by the SEC such as objectives, operations and standards to be followed, including regulating power and corrective measurements to be applied, which would be included in such a Section concerning a legal regulator. Additionally, coordination of this authority with the authority granted to the BOA for oversight of the quality of audits by RA 9298 is not addressed.

[103] BOA Res. 5-2016

[104] The World Bank conducted a technical review on audit quality in 2015 and 2016. The report "Republic of the Philippines Strengthening Oversight: Improving the Quality of Statutory Audits in the Philippines" was published in May 2016.

[105] This section states that "Every corporation, domestic or foreign, lawfully doing business in the Philippines shall submit to the Securities and Exchange Commission an annual report of its operations, together with a financial statement of its assets and liabilities, certified by any independent certified public accountant in appropriate cases, covering the preceding fiscal year and such other requirements as the Securities and Exchange Commission may require."

149. **Auditors are required to be accredited by the various regulators in order to perform audits of financial statements required by the respective regulatory bodies.** Annex 4 summarizes oversight agencies requiring submission of audited financial statements. The general BOA accreditation is supplemented by the discrete accreditations required by the SEC, BSP, and IC, respectively (refer to Annexes 5 and 6 for various accreditation requirements). Other agencies have also adopted their own rules on accreditation of external auditors or accountants such as that by the NEA for audit of electric cooperatives, and by the Energy Regulatory Commission for agreed-upon procedures on distribution utilities. The supplemental process of accreditation for auditors may include evaluation of education, training, experience, and review of financial statements. The Council for Accreditation and Quality Control of Practicing CPAs provides a forum for the respective regulators to discuss policy issues on quality control standards applicable to auditors, consult on proposed resolutions concerning audit quality assurance, coordinate efforts, and otherwise share information.

Table 13. Accredited Auditors by Agency

Agency	Partners	Sole Practitioners	Total
SEC*	307	142	449
BSP**	74	10	84
IC*	81	10	91
CDA***	327	793	1120
*	Data as of September 30, 2016		
**	Data as of December 31, 2016		
***	Data as of July 31, 2016		

150. **A Memorandum of Agreement was executed in 2009 binding the BOA, the SEC, the BSP, and the IC for simplified and synchronized accreditation requirements for external auditors and/or auditing firms.** However, SMPs continue to raise the need to rationalize various accreditation requirements by the different regulators. Harmonization suggestions from practitioners include synchronizing the validity period of accreditations, extending the validity period (for instance, from three years to five years), and adjusting the timing of renewal or compliance periods to avoid peak work periods for both the regulators and the auditors. High costs of compliance, the need for specialized knowledge, and low audit fees are cited by SMPs as significant factors contributing to the low number of auditors pursuing additional accreditations.

151. **There is a notable lack of accredited external auditors at the regional level.** The number of local external auditors has remained low compared to the number of auditable or regulated entities. Audit firms are concentrated in the national capital region with a number of branches and offices opened in the regions. The SEC has 320 out of its 443 accredited external auditors located in the national capital region, while the other 123 are scattered in 16 different regions where there are 321,324 SEC-registered companies. Some regions have just one accredited auditor or none at all. The BSP does not have any selected external auditors in 10 of 17 regions and reported a 20% reduction in accredited auditors nationwide in 2016.[106] Refer to Annex 9 for a geomapping of accredited auditors throughout the Philippines.

[106] The BSP reported a reduction of accredited auditors from 105 as of August 31, 2016 to 84 as of December 31, 2016.

152. **In its annual report, the SEC publishes data on accredited independent auditors by category and by region.** The report also includes the number that have been denied applications, those who have abandoned, the number of companies that have been referred to other departments as a result of accreditation reviews, the number of auditors penalized, the number required to amend the company's financial statements, and the number of financial statements reviewed. Referrals to BOA by the financial regulators are primarily evaluated at BOA and, if assessed to be serious, these cases are forwarded to the Legal and Investigation Division (LID) of the PRC for investigation.

Table 14. Number of External Auditors/Auditing firms penalized/denied by SEC[107]

	2013	2014	2015	2016	Feb-17	TOTAL
Penalized	118	102	101	139	45	505
Denied	124	107	75	60	10	376
TOTAL	**242**	**209**	**176**	**199**	**55**	**881**

153. **The PRC investigates cases of erring professionals within their coverage through its LID.** A complaint can be filed by any member of the public, by a representative of the PRC's public assistance and complaints unit, through PRC hotline, or by sending an SMS or email to PRC. All complaints against a professional are forwarded to LID for verification and investigation. Refer to Table 16 on the number of complaints received by LID involving professional CPAs. The complaint process (See Figure 7) follows the PRC Resolution No. 2013-775, the revised rules and regulations governing administrative investigations by the Commission. LID decisions have the force and effect of the decision of a court of law, with the same level of authority as the regional trial court. Decisions can also be appealed following the revised rules and regulations governing administrative investigations by the Commission, but once the appeal period had lapsed, then LID decisions become final and executory. (See table 17 on the summary of decided cases involving CPAs).

Table 15. Summary of LID, PRC decided cases relating to CPAs[108]

	TOTAL
Dismissed	227
Revoked	62
Suspended	17
Debarred	12
Reprimanded	4
Archived	21
Deferred registration	2
Denied issuance of CR	1
Transferred	1
Held in abeyance	1
Examination papers cancelled	3
TOTAL	**351**

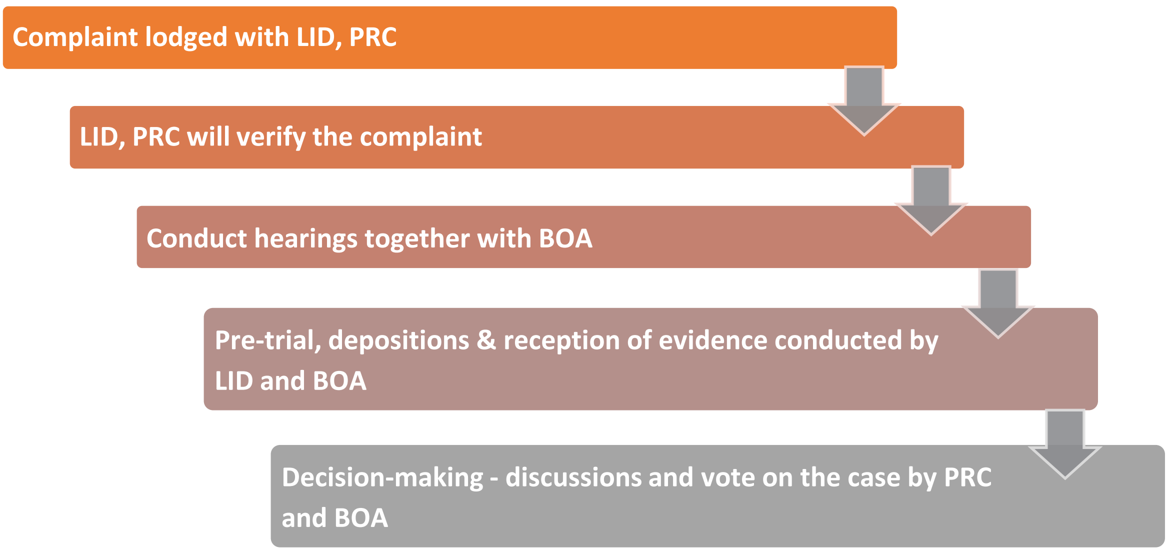
154. **PRC LID decisions are not published, nor are suspension or revocation of CPA licenses or accreditations made by the BOA.** Regulators are not notified of the resolution of referrals to PRC LID. Implementing measures to publish findings and inform regulators is a necessary step in increasing transparency over the profession and strengthening cooperation among regulators.

[107] Source: SEC
[108] Source: PRC

Table 16. Number of Complaints and Investigations involving CPAs lodged with LID[109]

Complaint	Pending	Decided	TOTAL
Unprofessional	219	225	**444**
Unethical	4	23	**27**
Immorality	21	92	**113**
Negligence, incompetence, malpractice	3	4	**7**
Grave misconduct, dishonesty, falsification	1	3	**4**
Conviction of a crime involving moral turpitude	0	1	**1**
Violation of the accountancy law	0	3	**3**
Violation of general instruction to examinees	4	3	**7**
Undocketed	1	0	**1**
Total	**253**	**354**	**607**

Figure 7. PRC complaint process involving CPAs



[109] Source: PRC

Observed Reporting Practices and Perceptions

Review of Financial Statements

155. **A sample of financial statements recently issued in the jurisdiction were reviewed to determine whether the statements largely align with the expected presentation and disclosure requirements of the applicable financial reporting framework and have been prepared without significant errors or omissions**. All selected companies are subject to the annual statutory audit and all prepared their financial statements in accordance with PFRS or PFRS for SMEs. In addition, companies were selected to assure a diversity of entity types and auditors, including each of the Big Four affiliates; other international network firms; and domestic firms. The inferences drawn from the review should be considered with a degree of caution given the limited sample size, as well as the inherent limitations in attempting to gauge compliance without performing an independent audit. This ROSC A&A assessed the compliance gap by reviewing a sample of 28 sets of financial statements purported to be prepared in accordance with PFRS[110] including:

- six banks[111] (including one big GOCC): four big and two medium-sized;
- 12 non-bank publicly listed companies: three medium-sized and nine small;
- five state-owned enterprises:[112] one big, two medium-sized and two small;
- four SMEs—non-bank non-exchange-listed corporates using the PFRS for SMEs; and
- two insurance companies – one big and one medium sized

156. **The review of financial statements revealed instances of non-compliance with the relevant financial reporting framework in all sectors reviewed and across all sizes[113] and ownership structures**. However:

- Quality of financial reporting by banks appears to be better than other types of entities.
- Quality of financial reporting by GOCCs appears to be less satisfactory than other forms of ownership.
- There is some anecdotal evidence that financial reporting quality is correlated with entity size. For example, audit reports of small entities using PFRS[114] appear more likely to be qualified and appear more likely to include 'emphasis of matter' paragraphs.

[110] Non-bank non-exchange-listed corporates (SMEs) prepare financial statements in accordance with the PFRS for SMEs.
[111] The six sampled banks comprise approximately 47% of the total assets of the banking industry as of December 31, 2015
[112] Because one of the GOCCs reviewed is a bank it is included in both categories.
[113] Size is determined by the sum of total assets at 31/12/2015 + total liabilities at 31/12/2015 + income for 2015. Big = > P1,000,000 million; small = < P10,000 million.
[114] This comparison necessarily excludes SMEs that prepared financial statements in accordance with the less onerous PFRS for SMEs. All of the small entities reviewed that assert compliance with the PFRS for SMEs have unqualified audit reports without any emphasis of matter being reported by their auditors.

157. In performing the review,[115] emphasis was placed on the disclosures relating to particular judgments and estimates because:

- Doing so provides a risk-focus to the review (as disclosure of the most significant judgments and key measurement assumptions is required); and
- **Experience from other jurisdictions globally indicates that professional accountants need to develop their capacity to make judgments and estimates to apply a principles-based reporting framework.** This is especially challenging in highly developed economies in which complex and sophisticated financial instruments, tax positions, and other intangible factors are prevalent.

Summary of Review Findings

158. Reflecting the maturity of application that is anticipated from applying principle-based standards for some years, as well as the sophisticated capital market structure and developed financial sector in the Philippines, this review focused primarily on judgments, including those applied in assessing measurements, estimates and risks. Consequently, caution must be exercised when comparing the results of this review with those of earlier ROSC A&As.

159. On the basis of the review of the sample of financial statements, the overall quality of financial reporting is found to be in need of improvement.

160. **Recurring areas of non-compliance appear to include:**

- **Financial statement presentation:** management appear not to have considered whether the disclosure of immaterial information results in material information being obscured.
- **Disclosure of most significant judgments made in applying accounting policies:** insignificant judgments are included, significant judgments are omitted, and inadequate 'boiler-plate' information is disclosed.
- **Disclosure of key measurement assumptions:** generic information is provided rather than quantified explanations of the assumptions made and information about the sensitivity of estimates to changes in assumptions, the range of reasonably possible outcomes, and changes made to past assumptions during the year.
- **Fair value measurement:** inaccurately differentiating between levels of the fair value measurement hierarchy, deficient measurement, and incomplete disclosures.
- **Depreciation/amortization:** using boiler-plate depreciation policies for property, plant, and equipment, investment property and intangible assets that are inconsistent with the depreciation principle of reflecting the consumption of the item's service potential.
- **Legal proceedings and uncertain tax positions:** insufficient disclosures about the classification judgments made and, when relevant, the judgments made in recognizing and measuring the associated liabilities or assets.
- **Segment Reporting:** insufficient disclosure and information on why certain segments were not consolidated

---

[115] The review is not akin to an audit. The reviewer does not examine underlying evidence and does not have access to management.

- **Impairment of assets:** inconsistencies with underlying economics and inadequate disclosures.

161. **Recurring areas of non-compliance by banks appear to be:**

- **Credit risk:** disclosures on maximum exposures to credit risk disclosures and concentration of credit risk disclosures were incomplete, particularly regarding off-balance sheet items and collateral.
- **Liquidity risk:** inadequate disclosures about how liquidity risk is managed and the nature and extent of the liquidity risk to which they are exposed. In particular: (i) insufficient time bands were used; (ii) off-balance sheet commitments were omitted; and (iii) significant liabilities were not allocated to the earliest period in which the bank can be required to pay.
- **Market risk:** inadequate disclosures about market risk irrespective of whether the bank uses value-at-risk sensitivity analysis to reflect the interdependencies between risk variables on the basis on which they manage financial risks.
- **Foreclosure assets:** opaque accounting policies and insufficient disclosures.
- **Impact of PFRS 9:** because of its significance to banks, they should provide information about their implementation program.

162. **Other observations:**

- Other observations based on the language in the audit reports include that some auditors of consolidated financial statements appear to be 'blindly' relying on the work of other auditors of, for example, subsidiaries furnished to them by management. This appears to contravene International Standard on Auditing (ISA) 600.

Perceptions of A&A Practices

163. **In addition to roundtable discussions with stakeholders such as industry associations, an online survey was circulated to gauge perceptions of the quality of financial statements.** The inferences drawn from the survey served to corroborate some of the earlier observations regarding the A&A environment from other assessments. Typically, financial information reported by listed companies and financial institutions was perceived as high quality and useful for decision-making purposes and in lending decisions. GOCCs and SME financial reporting were seen as relatively less credible and useful. The financial statements of unlisted GOCCs, in particular, were considered less likely to provide a fair representation of the economic reality of the underlying transactions.

164. **There is a perception, especially for MSMEs, that audited financial statements are primarily for the use of the BIR.** As such, the objective of most enterprises is to disclose as little as possible to avoid or minimize any findings by BIR to avoid taxes or assessments.

III. STATUS OF POLICY RECOMMENDATIONS OF ROSC A&A 2006

165. **The last ROSC A&A was completed in the Philippines in 2006, and since then the country has made progress in addressing its recommendations to develop its legal framework, standards, and institutions to foster reliable and efficient financial reporting.** The table below summarizes the primary recommendations in the 2006 ROSC and developments in the Philippines since then.

Recommendation	Implementation status	Actions taken
A&A standards		
Training on preparing IFRS/IAS-based financial statements for various stakeholders.	Fully Implemented	IFRS/IAS was fully adopted in 2005. Trainings and the required literature are available to all practitioners.
Establish an oversight body to coordinate the quality control programs of the various Stakeholders (SEC, BSP, IC, BOA and PICPA) and provide appropriate transparency in carrying out the quality control function.	Partially Implemented	A Council for Accreditation and Quality Control of Practicing CPAs ("Council") was created under a Memorandum of Agreement executed on August 12, 2009, by BOA, SEC, BSP, and IC. The oversight body would establish the objectives and policies such as the companies to be covered by quality control review and the nature and extent of work to be done but progress has been quite limited.
Set up quality control review teams of full time qualified professionals who report directly to the oversight body. The oversight body should be able to recruit qualified personnel with commensurate compensation.	Limited progress to date	Various quality assurance inspection program initiatives are underway but efforts are fragmented and teams are not expected to report directly to the oversight body.
Design quality control procedures appropriate to audit firms to be reviewed.	Limited progress to date	Although some progress has been made, a mandatory quality assurance inspection program is not yet operational.
Capacity to implement A&A requirements		
Require continuing professional education and create a CPE Council as required by the Accountancy Act of 2004	Fully Implemented	PRC issued MO requiring minimum number of CPE credits before license renewal. PICPA was designated to create a CPE Council to take charge of the establishment of CPE requirements.

Recommendation	Implementation status	Actions taken
Monitoring and enforcement		
Rationalize audit requirements for small companies. The present thresholds that require submission of audited financial statements were set many years ago and are no longer optimal in the current economic context	Not implemented	No changes to date. However, the DOF is in the process of proposing changes to existing governing laws in coordination with SEC and BIR.
Audit practice review		
Rationalize PICPA's membership fee structure.	Not implemented	No significant changes to date.

IV. KEY FINDINGS AND AREAS FOR CONSIDERATION

166. **A mature and comprehensive accounting and auditing framework exists in the Philippines, which is largely in line with international standards and many internationally recognized good practices, however, further improvements can be achieved to further align with international standards and good practice.** The following findings and corresponding recommendations relate to further improvements which can be incorporated to the existing and generally successful regulatory initiatives undertaken largely by regulators and PICPA. These include measures to: enhance market competition through the establishment of a comprehensive system of audit quality assurance with risk based inspections and an enabling legal framework; improve transparency and accountability by GOCCs to enhance service delivery through improved corporate governance, financial reporting, and auditing practices; and facilitate ease of doing business and more efficient tax collection for micro, small, and medium enterprises through the rationalization of statutory audit thresholds, rationalization of accreditation and compilation requirements, strengthening the skills and competencies of SMPs, raising the standards of accounting education throughout all regions, and developing the support to the profession provided by PICPA.

167. **The following table will inform the country action plan and identifies key findings, recommendations, responsible agencies, and time frame (short term: less than a year, medium-term: 1-3 years and long-term: 3-5 years).** Key findings and recommendations are presented in bold. The recommendations are further summarized by timeframe in Figure 8, with key recommendations in bold, for ease of reference.

Findings	Recommendations	Responsible Agency	Timeline
A&A standards assessment			
PFRS 9 and 15 will be adopted in 2018.	Develop road map to prepare companies for adoption of PFRS 9 and 15 in 2018	BOA, BSP, SEC, IC	Short Term
	Develop more practical guidelines on the adoption of PFRS 9 particularly on implementation of expected credit losses[116]		

[116] The BSP conducted a survey on PFRS 9 and is currently engaging various stakeholders to bring to fore significant concerns of the banking institutions as well as agree on a pragmatic approach in implementing the standard

Findings	Recommendations	Responsible Agency	Timeline
Financial reporting and auditing requirements			
The legal framework for Audit Quality Assurance does not provide for operational independence, adequacy of staffing and salaries, nor adequacy of funding.	**Develop a working group including representatives from key stakeholder groups to review the legal framework. The working group should be led by a high-level government official with sufficient decision-making authority to moderate the process. Input should be solicited from stakeholders through surveys, request for public comment, stakeholder forums, or other means.**	**DOF, BOA, BSP, IC, SEC, BIR, CDA, NEA**	**Short Term**
	Update the Accountancy Law to realign legislation with international good practice and promote compliance with international principles. (Refer to Annex 3 for IFIAR Core Principles and IFAC SMO 1.) The legal framework should ensure adequate and stable funding and the ability to provide competitive compensation to audit inspectors. To adequately address the risk of PIE audits, the oversight authority must be able to pay salaries sufficient to attract and retain inspectors with substantial audit experience (a minimum of about six years and attainment of senior manager level) as auditors with international network firms or their equivalents.		**Medium Term**
A comprehensive, cohesive, and adequate system of audit quality assurance is not in place, with various elements of quality assurance being performed by different agencies.	**Coordinate quality assurance initiatives of various agencies to ensure all categories of audited entity financial statements are included in coverage of quality assurance inspections, and overlaps are avoided. The agreed coordination should be formalized in an inter-agency agreement or similar document.**	**BOA, BSP, IC, SEC, CDA, NEA, PICPA**	**Short Term**
	Implementation of audit QAR programs developed under ongoing initiatives should incorporate international best practices and principles, based on the agreed plan of coordination. Quality assurance of PIE auditors should be completed by a competent body independent of the profession. Quality assurance over non-PIE auditors may be delegated to an appropriate body, and should initially be developmental in nature to build capacity within the profession.		

Findings	Recommendations	Responsible Agency	Timeline
Requirement for auditor accreditation is varied per oversight agency	Review auditor accreditation requirements of various oversight agencies for increased coordination.[117]	BOA, BSP, IC, SEC, BIR, CDA, NEA	Short Term
Audit requirement threshold of various agencies are too low	Move forward with proposal to rationalize audit requirements and provide a statutory audit exemption framework for MSMEs.	DOF, BIR, SEC[118]	Short Term
	Consider the use of alternate levels of assurance such as reviewed financial statements.		
	Consider a simplified reporting framework for small entities.		
	To the extent possible, harmonize audit requirements of the SEC and BIR.		
Requirement for compilation of financial reports were perceived as onerous by industries and practitioners	Reevaluate the need for the Certificate of Compilation in light of the Statement of Management Responsibility required by the SEC.	BOA	Short Term
	Reevaluate the requirement that internally compiled financial statements must be prepared by a CPA.		

[117] The Financial Sector Forum is currently working on the adoption of a "single passport" accreditation by the BSP, SEC, and IC. Under this proposed framework, the SEC will be the single entry point for receiving and screening applications for accreditation of external auditors. The proposed circular amending the policy on the selection of external auditors for BSFIs was exposed for comments on August 7, 2017, to industry associations, public practitioners, and member-agencies of the Financial Sector Forum. The proposed issuance is premised on the agreed upon interim arrangement among member-agencies of the Financial Sector Forum in preparation for the migration to the single accreditation framework. In this transition arrangement, the proposal is to expand the mutual recognition policy such that the external auditors under Group/Category A, will also qualify for mutual recognition. The proposed transition arrangement likewise includes: 1. Streamlining of documentary requirements and adoption of a uniform application form across Financial Sector Forum member-agencies; 2. Strengthened qualification standards of external auditors applying for groups/categories A & B considering the complexity of covered institutions; 3. Alignment of the entities under each category/group across selected/accrediting member-agencies; 4. Extension of the validity of the inclusion in the list of BSP selected external auditors from 3 to 5 years, but this may be revoked anytime based on the result of assessment of the Audited Financial Statements; and 5. Clarification of the progression of sanctions that shall be imposed without prejudice to the sanctions or monetary penalty that the SEC or the Board of Accountancy may impose on the concerned external auditor and/or audit firm pursuant to their rules and regulations.

[118] While the relevant oversight agencies have sole responsibility for Agency specific audit requirements, it is noted that BOA may engage in consultations on the issue.

Findings	Recommendations	Responsible Agency	Timeline
Institutional Capacity			
A&A standard setting bodies do not have predictable funding	Consider regular and sustainable funding for FRSC and AASC. BOA may consider inclusion in the General Appropriations Act.	PRC, BOA	Short Term
PRC Legal and Investigation Division decisions on erring CPAs are not published	Publish final decisions on erring CPAs especially those cases involving ethics and fraud;	PRC, BOA	Short Term
	Publish the list of professionals whose licenses were revoked and suspended for the purpose of informing the general public; and		
	Consider compiling the final decisions of PRC LID for reference so that the final decisions may also be cited for similar cases involving professionals.		
The Board of Accountancy is not required to be independent from the profession.	Review the governance rules of the Board of Accountancy to ensure independence from the profession and avoid conflicts of interest.	PRC, BOA	Short Term
The current process for certifying accountants and auditors is not fully compliant with IFAC’s International Education Pronouncements and needs to be overhauled.	Overhaul exams to meet the “sufficiency” requirement of IES 6. Exams should include a peer review process to increase the quality of the questions and should not entirely consist of multiple choice questions.	BOA	Short Term
	Ensure experience requirements to comply with IES 5 "Initial Professional Development - Practical experience" 2015. The experience requirement should apply to all CPAs, not only to auditors, and should evaluate professional competence.		
Current rules prevent foreigners from practicing accounting in the Philippines with some narrowly defined exceptions, in particular for lecturers. This has not prevented international firms from establishing correspondence relationships with local firms, even though they are barred from direct investment.	Consider admitting qualified foreign practitioners subject to an examination related to tax and audit rules in the Philippines rather than insisting on "mutual recognition" by foreign regulators of accountants and auditors.	BOA	Medium Term

Findings	Recommendations	Responsible Agency	Timeline
New CPD requirements are misunderstood and perceived as burdensome	**Provide flexibility in attaining CPD units for practitioners to obtain training relevant to their sector or type of practice**	**BOA**	**Short Term**
Almost 68% of schools offering the accountancy program have CPA passing rates below the national average	Strengthen capacity of low performing schools in CPA examinations.	BOA, CHED	Long Term
The Accounting curriculum is presently under review by CHED with reforms expected to be rolled out in the 17-18 education year.	**Finalize the new national accounting curriculum, ensuring compliance with IES, adequate planning and resources, as well as ongoing consultations with stakeholders. Consideration should be given to institutional arrangements for educating government sector accountants. Assessing the market needs by conducting an extensive survey of professional accounting needs and existing competencies, working with universities and practitioners to ensure the reforms are well planned and fully understood, and taking into consideration the aptitude and financial constraints of students and practitioners will all be key to the success of the proposed reforms.**	**BOA, CHED**	**Short to Medium Term**
PICPA fees may not be sufficient to maintain its operations.	**Rationalize PICPA fee structure to enable enhanced delivery of CPD, tools, and resources to develop and support the profession.**	**PICPA**	**Medium Term**
PICPA Directors and the President hold short term tenures which do not provide sufficient time for senior leadership to oversee the execution of any significant initiatives or reforms	Review PICPA Governance rules with respect to tenure of the Directors and the President.	PICPA	Medium Term
PICPA membership is not being optimized	**Achieve a greater level of full membership by demonstrating the value of membership;**	**PICPA**	**Medium Term**
	Consider including a membership tier for Accounting Technicians		

Findings	Recommendations	Responsible Agency	Timeline
Although PICPA reports that roughly two-thirds of its members are female, the percentage of female partners and principals in the largest public accounting firms is reported to be 50%, while females represent less than one-third of firm executives. Similarly, only two of the seven Board members of the BOA are female.	Evaluate the need for viable career development paths for women in the profession.	PICPA	Medium Term
Availability of accountants and auditors in areas outside Metro Manila is low	**Develop a targeted program to strengthen the capacity of the SMP sector to meet the accreditation and compliance requirements of regulators and serve as trusted advisors for the MSME sector;**	**PICPA, BOA**	**Medium to Long Term**
	Increase availability of relevant quality CPD, tools, and resources to SMPs in regions outside the national capital region;		
	Consider strengthening capacity of Accounting Technicians who may act as in-house financial professionals for small and micro sized entities. This may be achieved by including a membership tier within PICPA for Accounting Technicians.		
Audit reports of GOCCs are generally delayed	**Capacitate GOCCs to ensure timely preparation of quality financial reports based on PFRS or PPSAS, as applicable;**	**COA**	**Short Term**
	Conduct a feasibility study, including consideration of any related legislative changes, for outsourcing audits of GOCCs to the profession in order to supplement the existing capacity of COA;		**Medium Term**

Findings	Recommendations	Responsible Agency	Timeline
Observed reporting practices and perceptions			
Quality of audits for MSMEs is perceived to be low by regulators and users of financial statements	**Develop a targeted program to improve quality of audits for the MSME sector to provide reasonable assurance to the lenders and users of the financial statements;**	**BOA/PICPA**	**Short Term**
	Implement a quality assurance program over auditors in SMPs which is developmental in nature and focused on building capacity within the profession;		
	Strengthen capacity of auditors in SMPs outside Manila by increasing availability of CPD, tools, and resources to regions outside Metro Manila;		
	Review circumstances in which sole proprietors issue audit reports to ensure compliance with necessary Engagement Quality Control (pre-issuance) Reviews required by International Standards on Quality Control 1.		
A review of a sample of financial statements found recurring instances of non-compliance with judgments and estimates in compliance with a principles-based reporting framework.	Professional accountants should further develop their capacity to make judgments and estimates in compliance with a principle based reporting framework.	Practitioners	Short to Medium Term
Financial reporting of GOCCs is often not done in accordance with required frameworks, and GOCCs do not display readiness for the required adoption of IFRS in 2016.	**A comprehensive transition plan and training program should be undertaken within GOCCs to build capacity for compliance with required financial reporting frameworks.**	**DOF**	**Short Term**

Figure 8. Summary of Recommendations

	A&A standards	Institutional framework: Financial reporting framework	Institutional framework: Institutional capacity	Observed reporting practices and perceptions
Short term	1. Develop road map to prepare for adoption of IFRS 9 and 15 2. Develop practical guidelines on the adoption of PFRS 9	**1. Develop a working group to review the legal framework for audit quality assurance** **2. Coordinate QA initiatives of various agencies, incorporating international good practices and principles** **3. Rationalize audit requirements especially for MSMEs** **4. Review auditor accreditation requirements to enhance coordination** **5. Review compilation requirements**	1. Review funding arrangements of FRSC and AASC 2. Consider publication of PRC LID decisions on erring CPAs 3. Review governance rules of BOA to ensure independence from the profession 4. Overhaul exams to meet “sufficiency” requirements of IES 6 5. Ensure experience requirements to comply with IES 5 "Initial Professional Development - Practical experience" 2015 **6. Provide flexibility in attaining CPD units for practitioners** **7. Finalize the new national accounting curriculum** **8. Strengthen institutional arrangement for training auditors outside the Metro Manila Region.** **9. Consider outsourcing audits of GOCCs to the profession**	**1. Improve quality of audits for the MSME sector to provide reasonable assurance to the users of the financial statements** 2. Further develop capacity to make judgments and estimates in compliance with a principles-based reporting framework **3. Establish IFRS transition plan and training program for GOCCs.**
Medium term		**6. Update the Accountancy Law to realign legislation with international good practice and principles**	10. Consider admitting qualified foreign practitioners subject to an examination related to tax and audit rules 11. Review PICPA governance rules with respect to tenure 12. Rationalize PICPA fee structure and value for membership **13. Consider including a PICPA membership tier for Accounting Technicians** 14. Evaluate the need for viable career development paths for women in the profession.	
Long term			20. Strengthen capacity of low performing schools in CPA examinations **21. Build SMP capacity to serve as trusted adviser for the MSME sector**	

ANNEX 1: SUMMARY OF PROGRESS ON ROSC 2006 RECOMMENDATIONS

2006 Recommendation	Key developments since 2006
Quality Assurance Review	

Establish an oversight body to coordinate the quality control programs of the various Stakeholders (SEC, BSP, IC, BOA and PICPA) and provide appropriate transparency in carrying out the quality control function. The oversight body would establish among others, the objectives and policies to be covered by quality control review and the nature and extent of work to be done.	• The Council for Accreditation and Quality Control of Practicing CPAs ("Council") was created under a Memorandum of Agreement (MOA) executed on August 12, 2009 by BOA, SEC, BSP and the IC, to act as a technical working group of the Financial Sector Forum and its member-agencies.
	• The primary objective of the Council is to promote the reliability and integrity of financial statements of entities under regulation and supervision of Financial Sector Forum member-agencies by providing advisory assistance in the areas of accreditation/selection of external auditors and adherence to quality control standards in the conduct of audit.
	• Various quality assurance inspection program initiatives are underway but efforts are fragmented and currently inadequate.
	  ○ A Quality Assurance Review Department (QARD) and Quality Assurance Review Executive Committee (QAREC) were created by the BOA in 2009 and approved by the Professional Regulation Commission. The QAREC was granted full power and authority to set policies and supervise the operations of the QARD, which would carry out the activities of the Quality Assurance Review Program (QARP). However, the QARP has not been implemented and the QAREC is not operational.
	  ○ PICPA has created a Quality Control Board
	  ○ PICPA has started a Voluntary Quality Assurance Review Program
	  ○ SEC is in the process of establishing the SEC Oversight Assurance Review (SOAR) program covering listed enterprises

Set up quality control review teams of full time qualified professionals who report directly to the oversight body. The oversight body should be able to recruit qualified personnel with commensurate compensation.	Limited progress to date. Although several discrete initiatives are underway, each would be led by a separate agency and the teams are not expected to report directly to the oversight body. It is not known yet whether teams will be adequately qualified or compensated.
Design quality control procedures appropriate to audit firms to be reviewed.	Some progress has been made, but a mandatory quality assurance inspection program is not yet operational.

2006 Recommendation	Key developments since 2006
Continuing Professional Education	
Require continuing professional education and create a CPE Council as required by the Accountancy Act of 2004	Professional Regulation Commission issued Memorandum Order requiring minimum number of CPE credits before license renewal
	PICPA was designated to create a CPE Council to take charge of the establishment of CPE requirements
Overall Education and Training	
Training on preparing IFRS/IAS-based financial statements for various stakeholders.	IFRS/IAS was fully adopted in 2005. Trainings and the required literature are available to all practitioners
Reporting Framework	
Rationalize audit requirements for small companies. The present thresholds that require submission of audited financial statements were set many years ago and are no longer realistic.	No changes to date. However, the DOF is in the process of proposing changes to existing governing laws in coordination with SEC and BIR.

ANNEX 2: INDEPENDENT AUDIT OVERSIGHT STRUCTURES WITHIN ASEAN

Indonesia	Malaysia	Singapore	Thailand
Name of Independent Oversight Body			
Pusat Pembinaan Profesi Keuangan / Finance Professions Supervisory Centre	Audit Oversight Board	Accounting and Corporate Regulatory Authority (ACRA)	SEC
Governing Legislation			
Law Number 5, Year 2011 Concerning Public Accountant; Government Regulation Number 20 Year 2015 Concerning Public Accountant Practices; Finance Minister Regulation Number 17/PMK.01/2008 Concerning Public Accountant Services.	Securities Commission Malaysia Act 1993	Accounting and Corporate Regulatory Authority Act establishes ACRA's functions and powers. Accountants Act and its subsidiary legislations sets out the laws and regulations concerning public accountants and public accounting entities.	Securities and Exchange Act B.E. 2535 (1992)
Is the oversight body housed or supported by another government entity or have a parent ministry?			
Ministry of Finance	Securities Commission Malaysia	Ministry of Finance	No. The oversight body is the SEC Thailand, which is an independent organization.
How/by whom are board members appointed?			
Ministry of Finance	Board members are appointed by the Board of Securities Commission.	Ministry of Finance	Members of the SEC Board and the Capital Market Supervision Board are either specified by positions, mostly from governmental agencies, or nominated by the Selection Committee.

Indonesia	Malaysia	Singapore	Thailand
Funding source of oversight body			
State Budget	The Audit Oversight Board collects the following fees: • 5,000 Malaysian ringgit for registration of an individual auditor as a registered auditor • 5,000 Malaysian ringgit for an existing registered individual auditor who wish to continue to be registered with Audit Oversight Boardin the current year • 5,000 Malaysian ringgit for the application for recognition of a foreign audit firm as a recognized auditor Capital expenditure and all other operational costs of Audit Oversight Board including the cost of inspections are funded by the SC.	Statutory fees payable under the Acts administered by ACRA (including filing and registration fees for business entities and from provision of information services related to such entities)	The SEC start-up fund was provided by the Ministry of Finance and the Bank of Thailand. Ongoing operations are funded through a levy on market participants, mainly the Stock Exchange of Thailand, listed companies, market intermediaries i.e. brokers and dealers, and asset management companies.
Scope of coverage of inspections (auditors of PIEs only, all auditors, other)			
All	Auditors of PIEs and schedule funds	All	Auditors of securities issuers and entities under SEC supervision (listed companies, market intermediaries, asset management companies, and collective investment schemes)

Indonesia	Malaysia	Singapore	Thailand
Are inspections of non-PIE auditors completed by another entity? If so, please specify.			
No	Yes The Malaysian Institute of Accountants is responsible for surveillance and enforcement of auditors carrying out audits of non-public interest entities through its Practice Review Program.	Yes They are performed by inspectors from the national professional body (the Institute of Singapore Chartered Accountants) with oversight by ACRA to ensure the same benchmark of compliance with auditing standards is maintained across all inspections.	Yes The Federation of Accounting Professions is responsible for the oversight of auditors of non-listed companies.
Qualifications of Head of Oversight Body			
Ministry of Finance Official	Former partner or principal of Big Four or international network firm	Former principal or senior manager of Big Four or international network firm	Head of the oversight body is the Secretary-General of the SEC (law-related background).
Qualifications of Inspectors			
Most Inspectors passed Indonesian CPA examination and some Inspectors acquired other certifications from Indonesian Institute of Accountants.	Various inspectors are professionally qualified and have several years of audit experience	Former principal or senior manager of Big Four or international network firm	All inspectors are CPAs and have several years of audit experience in the Big Four firms. In addition, the audit inspection teams also normally seek advice from the SEC advisor who is a former partner and CEO of the Big Four firm.
Are inspectors subject to civil service pay scales?			
Yes	No	Yes	No

ANNEX 3: SIGNIFICANT FACTORS FOR THE EFFICIENT FUNCTIONING OF AUDIT OVERSIGHT

IFIAR Core Principles for Independent Audit Regulators

Key Areas	IFIAR Principle / Best practice for successful public oversight
Structure	**Principle 1:** The responsibilities and powers of audit regulators should serve the public interest and be clearly and objectively stated in legislation.
	Principle 2: Audit regulators should be operationally independent.
	Principle 3: Audit regulators should be transparent and accountable.
Operations	**Principle 4:** Audit regulators should have comprehensive enforcement powers which include the capability to ensure that their inspection findings or recommendations are appropriately addressed; these enforcement powers should include the ability to impose a range of sanctions including, for example, fines and the removal of an audit license and/or registration.
	Principle 5: Audit regulators should ensure that their staff is independent from the profession and should have sufficient staff of appropriate competence.
	Principle 6: Audit regulators should be objective, free from conflicts of interest, and maintain appropriate confidentiality arrangements.
	Principle 7: Audit regulators should make appropriate arrangements for cooperation with other audit regulators and, where relevant, other third parties.
Principles for Inspections	**Principle 8:** Audit regulators should as a minimum, conduct recurring inspections of audit firms undertaking audits of public interest entities in order to assess compliance with applicable professional standards, independence requirements and other laws, rules, and regulations.
	Principle 9: Audit regulators should ensure that a risk-based inspections program is in place.
	Principle 10: Audit regulators should ensure that inspections include effective procedures for both firm wide and file reviews.
	Principle 11: Audit regulators should have a mechanism for reporting inspections findings to the audit firm and ensuring remediation of findings with the audit firm.
Adequate legal framework and authority to supervise the profession	The public oversight body should have sufficient legal authority and specific legal powers to oversee the audit profession to help assure audit quality, particularly for the highest risk audits. The framework should ensure that the oversight body is fully independent from the profession, is transparent, and acts in the public interest.

Key Areas	IFIAR Principle / Best practice for successful public oversight
Sustainable Funding Model	To adequately address the risk of PIE audits, the public oversight body must be able to pay salaries sufficient to attract and retain inspectors with substantial audit experience (a minimum of about six years and attainment of senior manager level) as auditors with international network firms or their equivalents. The commission may be able to offer some compensating benefits (such as more reasonable working hours) to allow for somewhat lower pay scales than in private audit practice, but salaries cannot be significantly lower that quality inspections becomes an unattractive career choice for talented and experienced auditors. Ordinary civil service pay scales are often too low to attract and retain a sufficient number of inspectors with the right experience, competence, and motivation.
Adequate staffing	If the public oversight body is to conduct audit quality assurance inspections and impose discipline for auditors of PIEs, it must be staffed with sophisticated and experienced personnel with the required expertise to conduct audit quality assurance reviews of banks, insurance companies, and other specialized entities.

International Professional Requirements of IFAC

IFAC has issued seven (7) Statement of Membership Obligations (SMOs), which are meant to assist members like PICPA in ensuring high quality performance by professional accountants. They cover the member body's obligations to support the work of IFAC, the work of the IASB, and obligations regarding quality assurance, investigations, and discipline.

SMO 1 covers the subject Quality Assurance. This subject is addressed at three levels - the engagement level, the firm level, and the member body level. SMO 1 requires a member body to ensure a mandatory quality assurance review program is in place for those of its members performing audits.

SMO 1 includes guidance on the design of the QAR system, the review cycle, QAR team composition and procedures, reporting, corrective, and disciplinary actions, consideration of public oversight, and review of implementation and effectiveness.

Where government, regulators, or other appointed authorities perform any of the quality control functions, member bodies should (a) use their best efforts to encourage those responsible for those functions to follow the SMO in implementing them, and (b) assist them in that implementation where appropriate. Additionally, government may delegate the responsibility for quality assurance to the member body even if this may be mandated to be done by other regulatory authorities.

ANNEX 4: REQUIRED AUDITED FINANCIAL STATEMENTS BY AGENCY

Bureau of Internal Revenue Audit Requirements

In the Philippines, individual (except for individual taxpayers who opted for the Optional Standard Deduction, *BIR Revenue Regulations No. 16-2008 and 2010, and amended*) and corporate taxpayers, whose gross quarterly sales or receipts exceed 150,000 pesos (600,000 pesos annually)[119], are required by the BIR to attach audited financial statements on their annual income tax returns. These audited financial statements must have a certificate of independent CPA duly accredited by the BIR.

Publicly Accountable Entities (including listed companies) Audit Requirements

The Securities Regulation Code of the Philippines requires that all stock corporations with paid-up capital of 50,000 pesos or more (SRC Rule 68) submit to SEC an annual report of its operations, together with a financial statement of assets and liabilities, certified by an independent CPA. The SEC requires companies under its regulation to appoint an auditor approved by the SEC. The auditing firms and external auditors accredited by the SEC are classified into the following four groups:

Table 17. Summary of auditor category for publicly accountable entities

Category	Entities to be Audited
Group A – This group of auditors can audit the following companies, as well as the companies listed for Group B, C and D:	(1) Issuer of registered securities which have sold a class of its securities pursuant to a registration under Section 12 of the SRC except those issuers of registered timeshares, proprietary, and non-proprietary membership certificates which are covered in Group B; (2) Issuer with a class of securities listed for trading in an Exchange; (3) Public companies or those with total assets of at least 50 million pesos having 200 or more stockholders each owning 100 shares of a class of its equity securities.
Group B – This group of auditors can audit the following companies, as well as the companies listed for Group C and D	(1) Issuers of registered timeshares, proprietary, and non-proprietary membership certificates; (2) Investment Houses; (3) Brokers and Dealers in Securities; (4) Investment Companies;

[119] As per Sec. 232 (A) of the National Internal Revenue Code

Table 17. Summary of auditor category for publicly accountable entities

Category	Entities to be Audited
	(5) Government Securities Eligible Dealers; (6) Universal Banks Registered as Underwriter of Securities; (7) Investment Company Advisers; (8) Clearing Agency and Clearing Agency as Depository; (9) Stocks and Securities Exchange/s; (10) Special Purpose Vehicles registered under the Special Purpose Vehicle Act if 2002 and its implementing rules; (11) Special Purpose Corporations registered under the Securitization Act of 2004 and its implementing rules; and (12) Such other corporations which may be required by law to be supervised by the Commission.
Group C – This group of auditors can audit the following companies, as well as the companies listed for Group D	(1) Financing Companies; (2) Lending Companies; (3) Transfer Agents.
Group D	This group of auditors can audit registered corporations which are mandated by other regulatory agencies to have an external auditor accredited by the Commission, provided however that the Commission has been consulted on such requirement by said agency

Bank Audit Requirements

The BSP, as the banking supervisor, requires banks including their subsidiaries and affiliates, quasi-banks, trust entities, and other financial institutions to have their financial statements audited by external auditors duly accredited by the BSP and issued a guiding principle on the BSP's expectation for an effective external audit function. Accreditation by the BSP are categorized below:

Table 18. Summary of Auditor Category for Banks

Category	Entities to be Audited
Category A – This group of auditors can audit the following institutions, as well as the institutions listed for Category B and C:	a) Universal banks and commercial banks; b) Foreign banks and branches or subsidiaries of foreign banks, regardless of unimpaired capital; and c) Banks, trust department of qualified banks and other trust entities with additional derivatives authority pursuant to Circular no.594.

Table 18. Summary of Auditor Category for Banks

Category	Entities to be Audited
Category B – This group of auditors can audit the following institutions, as well as the institutions listed for Category C	a) Thrift banks; b) Quasi-banks; c) Trust department of qualified banks and other trust entities; d) National Cooperative banks; and e) Non-bank financial institutions with quasi-banking functions.
Category C – This group of auditors can audit the following institutions	a) Rural banks; b) Non-stock savings & loan associations; c) Local Cooperative banks; and d) Pawnshops.

Insurance Audit Requirements

The IC circular requires insurance companies and other regulated institutions to appoint an auditor accredited by the IC and also provides an expectation of an effective audit.

ANNEX 5: RELATED LAWS FOR ACCREDITATION OF EXTERNAL AUDITORS

Board of Accountancy

- Section 9 (a) Article II of RA 9298, also known as the Philippine Accountancy Act of 2004, mandates the BOA to supervise the registration, licensure, and the practice of accountancy in the Philippines.
- Section 31 of RA 9298 provides that individual CPAs and firms and partnerships of CPAs engaged in the practice of public accountancy, including the partners and staff members thereof, should register with the PRC and the BOA. Registration to be renewed every three years.
- BOA Resolution 295-2015 enforces the registration and accreditation requirements for all CPAs in public practice, including the individual partners and CPA staff members in partnerships and firms, under RA 9298 and its Implementing Rules and Regulations.
- BOA Resolution 92-2016; prescribes revised application forms, documentary requirements, and new fees for the accreditation of CPAs in public practice, education, and commerce and industry practice.

Bureau of Internal Revenue

- Section 6 (G) of the National Internal Revenue Code of 1997 authorizes the Commissioner of the BIR to accredit and register tax agents with respect to their practice and representation before the BIR.
- BIR Revenue Regulation 14-2010 amends the pertinent provisions of Revenue Regulations 11-2006 and 4-2010 on the accreditation of tax practitioners or agents as a prerequisite to their practice and representation before the BIR.
- The BIR will only consider as valid document or attachments to tax returns, information returns or other statements or reports required by the Code or Regulations, the financial statements prepared, signed and certified by duly accredited tax practitioners.

Securities and Exchange Commission

- SRC Section 68 provides that the SEC shall have the authority to make, amend, and rescind accounting rules and regulations as may be necessary to carry out provisions of the SRC.
- SEC Memorandum Circular 13-2009 adopts the revised guidelines of the SEC on accreditation of auditing firms and external auditors.
- Part I (3) of SRC Rule 68 details the qualifications and reports of independent auditors, particularly the additional requirements for independent auditors of regulated entities that should be accredited by the SEC.

Bangko Sentral ng Pilipinas

- Section 58 of RA 8791, otherwise known as "The General Banking Law of 2000", provides that the Monetary Board may require a bank, quasi-bank, or trust entity to engage the services of an independent auditor to be chosen by the bank, quasi-bank, or trust entity concerned from a list of CPAs acceptable to the Monetary Board.
- BSP Circular 660-2009 details the reforms to the BSP's policy on the selection and delisting of external auditor and/or auditing firms of covered entities, which under special laws are subject to BSP supervision (supersedes Circulars 410-2003, as amended by Circulars 455-2004 and 529-2006).

Insurance Commission

- Section 347 of RA10607, or the Insurance Code, provides that no external auditor shall be engaged by supervised persons or entities unless it has been issued an accreditation certificate by the Commissioner. The Commissioner issues rules and regulations to govern accreditation of the external auditor and its revocation or suspension.
- IC Circular Letter 29-2009 details the revised guidelines on accreditation of auditing firms and external auditors, which supersedes Circular Letter 18-2008.

Cooperative Development Authority

- Section 3(f) of RA 6939, an Act creating the CDA, states that the CDA have the power, function and responsibility to require all cooperatives, their federations and unions to submit their annual financial statements, duly audited by the CPAs, and general information sheets.
- Article 80 of RA 9520, also known as the Philippine Cooperative Code of 2008, requires cooperatives registered under the Code to be subjected to annual financial audit, which should be conducted by an external auditor who satisfies prescribed qualifications.
- CDA Memorandum Circular 2009-03 provides for the guidelines for the accreditation of cooperative external auditors.

ANNEX 6: AUDITOR ACCREDITATION REQUIREMENTS OF VARIOUS AGENCIES

Covered Entities	Minimum qualifications	CPD or training	Required track record	Primary certification/ accreditation	Validity Period	Accreditation fee
Board of Accountancy						
All auditable entities.	Three years of meaningful experience in any areas of public practice including taxation	120 units in three years	-	PRC Certificate	3 years	1,500 pesos for sole practitioner / 2,000 pesos for firm
Bureau of Internal Revenue						
Corporations, companies, partnerships, persons (proprietorships) whose gross quarterly sales, earnings, receipts, output exceed 150,000 pesos quarterly.	CPA of good standing with current professional license from the PRC.	At least six hours per year or a total of 18 hours for the three years of CPE in taxation from training/seminars conducted by the BIR or by private institutions.	-	BOA Certificate of Registration	3 years	500 pesos /year

Covered Entities	Minimum qualifications	CPD or training	Required track record	Primary certification/ accreditation	Validity Period	Accreditation fee
Securities and Exchange Commission						
Group A	At least five years experience in external audit as in-charge, manager or partner or its equivalent. Audit practice should have adequate policies and procedures related to the element of a system of quality control provided under PSA 220, PSQC 1, and amendments; reflected in Quality Assurance Manual.	60 units of training and seminars on the following topics within the last three years: 15 units on PFRS, 15 units on PSA, 18 units on Taxation, 8 units on Professional Ethics, and 4 units on relevant laws and recent issues affecting business or other areas relevant to the practice of accountancy. For renewal, 90 units for the last three years with the additional units on topics relevant to the companies under the category which the auditor is accredited (e.g., SRC, Financing Company Act).	Minimum of five corporate clients with total assets of at least 50 million pesos each.	BOA Accreditation	3 years	5,000 pesos for sole practitioner / 20,000 pesos for firm
Group B			Minimum of three corporate clients with total assets of at least 20 million pesos each.			3,000 pesos for sole practitioner / 15,000 pesos for firm
Group C			Minimum of three corporate clients with total assets of at least 5 million pesos each.			2,000 pesos for sole practitioner / 5,000 pesos for firm
Group D			Minimum of one corporate client with total assets of at least 5 million pesos; or a minimum of five clients regardless of the amount of total assets.			2,000 pesos for sole practitioner / 5,000 pesos for firm

Covered Entities	Minimum qualifications	CPD or training	Required track record	Primary certification/ accreditation	Validity Period	Accreditation fee
Bangko Sentral ng Pilipinas						
Category A	At least five years of audit experience as associate, partner, lead partner, concurring partner, or auditor-in-charge.	At least 30 hours in addition to the BOA's prescribed training hours, in subjects like IFRS, ISA, corporate governance, taxation, code of ethics, regulatory requirements of SEC, IC, and BSP or other government agencies, and other topics relevant to the practice.	Minimum of five corporate clients with total assets of at least 50 million pesos each.	BOA Accreditation	3 years	2,000 pesos for sole practitioner / 5,000 pesos for firm
Category B			Minimum of three corporate clients with total assets of at least 25 million pesos each.			
Category C			Minimum of three corporate clients with total assets of at least 5 million pesos each.			
Insurance Commission						
GROUP A: (a) Insurance companies; (b) Reinsurance companies; and (c) Mutual Benefit Associations.	At least five years experience in external audit as in-charge, manager, or partner or its equivalent. Auditor must have adequate established quality assurance procedures applicable to the type of entities covered by the accreditation.	For those with no specific audit experience, at least 40 hours in insurance/reinsurance accounting/auditing seminars; and for renewal, at least 36 hours seminar for the last three years, all conducted by the Institute of Internal Auditors Philippines or other organization recognized by the IC.	No less than 2 years of specific audit experience on type of entity covered.	BOA Accreditation	3 years	2,000 pesos for sole practitioner / 5,000 pesos for firm
Group B (a) Insurance and reinsurance brokers; (b) General agents; and (c) Trust for charitable uses.						

Covered Entities	Minimum qualifications	CPD or training	Required track record	Primary certification/ accreditation	Validity Period	Accreditation fee
Cooperative Development Authority						
All cooperatives.	-	Minimum 24 hours of training with topics on Standard Chart of Accounts, Financial Reporting Standards for Cooperatives, Philippine Cooperative Code, Rules and regulations issued by the CDA, etc.	-	BOA Registration	3 years	2,000 pesos for sole practitioner / 5,000 pesos for firm
National Electrification Administration						
Electric Cooperatives.	Engaged in public accounting for at least three years. Audit Team must have at least a senior partner and five key audit staff composed of managers and auditors who are CPAs.	-	-	BOA and BIR Accreditation	3 years	15,000 pesos
Energy Regulatory Commission						
Distribution Utilities.	At least five years experience in performing external audit services.	-	No outstanding complaints with the BOA, PRC, SEC, and any other government agencies involving professional conduct.	BOA Accreditation	3 years	3,000 pesos for sole practitioner / 10,000 pesos for firm

ANNEX 7: ENFORCEMENT MEASURES AND ACTIONS BY REGULATORS OVER AUDITORS

Securities and Exchange Commission

In case there is a violation of the financial reporting requirements by the company's external auditor, SEC imposes a penalty through SEC MC No. 13, Series of 2009.

The SEC usually issues a letter of explanation and show cause. After that, the external auditor may formally or informally engage with the regulator for clarification and consultation. Under SRC Rule 68, as amended, the SEC can require the external auditor to present its working papers, audit evidence, and other audit related records for the on-going investigation of a regulated entity.

Bangko Sentral ng Pilipinas

The revised rules and regulations governing the selection and delisting by the BSP of the external auditor and/audit firm of covered institutions are provided under Circular No. 660 dated 25 August 2009. This Circular is pursuant to Section 58 of the General Banking Law of 2000. The BSP has taken the following action on banks' external auditors:

a) Delisted external auditors since 2009 due to gross negligence in their conduct of audit, conflict of interest and misrepresentation, and/or failure to disclose material findings such as those involving fraud, dishonesty, or significant discrepancies in the financial reports;

b) Granted conditional approval on the application for renewal of certain external auditors to be included in the BSP's list of selected external auditors. The external auditors were given only one or two year financial audit engagements, instead of the full-three year term. This is due to numerous findings noted in the evaluation of the audited financial statements, which, when taken singly, seem trivial but were observed to be prevalent and collectively affect the integrity of the audited financial statements;

c) Streamlined internal process to expedite the evaluation of the audited financial statements, and provided supplemental internal guidelines to bank supervisors on the evaluation of said report; and

d) Improved coordination with the Philippine Deposit Insurance Corporation in terms of providing feedback on the quality of work of external auditors of closed banks, as well as those subject to the Corporation's onsite examination.

Insurance Commission

Non-compliance by the insurance company's external auditor will lead to delisting on the list of accredited external auditors by the IC.

Professional Regulation Commission / Board of Accountancy

Complaints against erring CPAs are lodged with the PRC LID. The complaint process follows the stages of the formal complaint pursuant to the revised rules and regulations governing administrative investigations by the Commission and the Board. LID decisions have the force and effect of the decision of a court of law.

Actions taken by the BOA would include suspension of the right to practice for 3 to 12 months and surrender of their PRC ID, and in extreme cases, cancellation or revocation of their certificate of registration as CPA.

The BOA may recommend closure of Accountancy programs, but the actual enforcement rests with CHED.

Note:

A Memorandum of Agreement dated 12 August 2009, was effected binding the BSP, SEC, IC and PRC-BOA for a simplified and synchronized accreditation requirement for external auditors. Further, the SEC and IC likewise issued similar regulations under Memorandum Circular No. 13 dated 19 September 2009 and Circular Letter dated 29-2009 dated 10 November 2009, respectively.

ANNEX 8: ENVISIONED TWO-TIER CERTIFICATION PROCESS

At the licensure level, the BOA's long term goal is to create a two-tiered certification process. The Certified Accountant examination which would consist of five (5) core subjects: (a) Financial Accounting and Reporting, (b) Advanced Financial Accounting and Reporting, (c) Financial Management and Advisory Services, (d) Taxation, and (e) Regulatory Framework for Business Transactions. Those who pass the Certified Accountant examination will be authorized to work as accountants in government, public practice, and private sector, except to sign auditors' certifications and to teach accounting. Those who want to become auditors or accounting educators will have to pass the second-level Certified Public Accountant or Certified Professional Accountant examination, respectively. Under the envisioned structure, there would be a second-level examination for each of the four accountancy specializations. This examination would be taken optionally after three years of meaningful work experience. An overview of the proposed programs is included below.

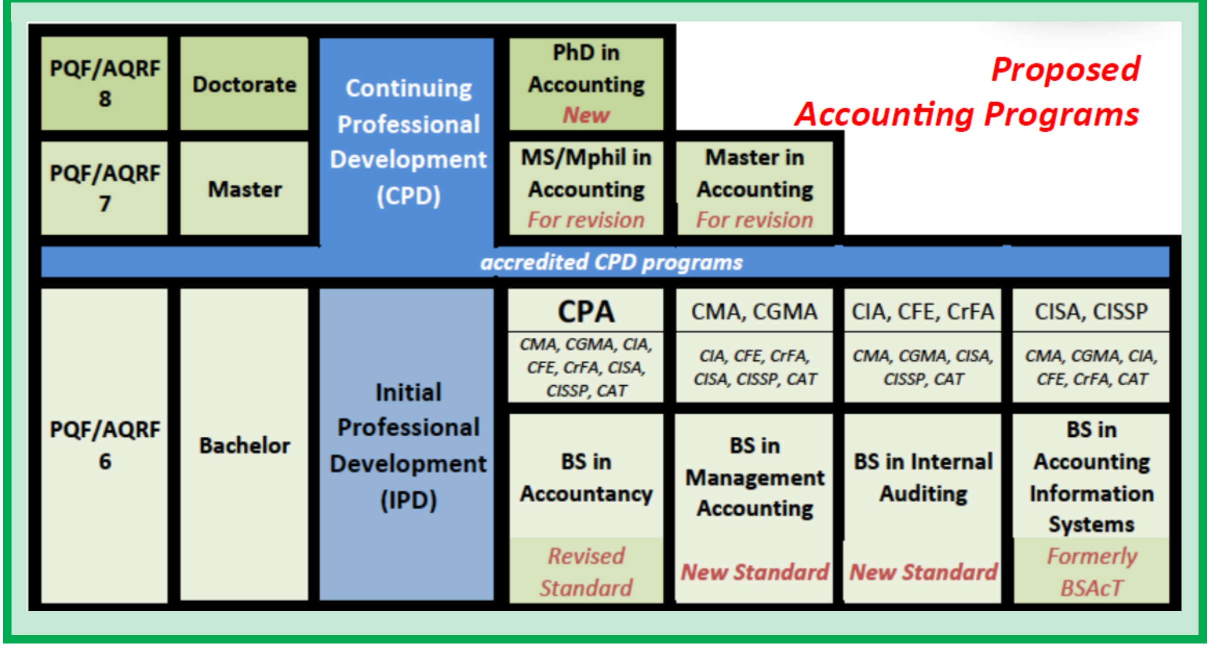
Box 8. BOA Proposed Accountancy Program[120]

It is to be noted that compared to the accountancy education framework envisioned by CHED, there seems to be a difference on the accreditation bodies that will give the specialized licenses. In the BOA proposal, the accreditation would have to come from a national accrediting body created for the

[120] Source: Board of Accountancy

purpose, while the CHED proposal uses the existing international accreditation bodies currently providing the certification for specialized fields.

Box 9. Philippine Accountancy Education Framework[121]

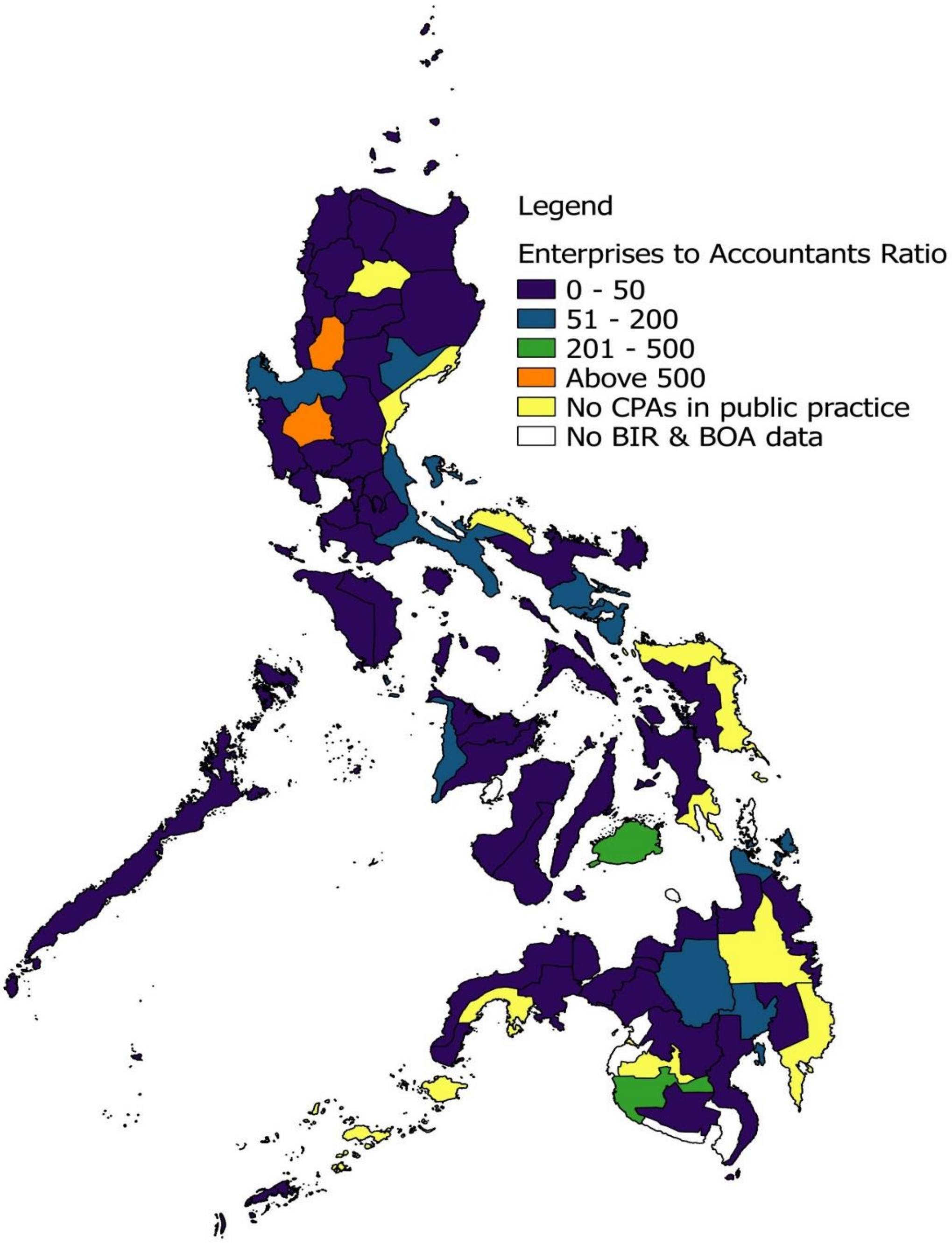


[121] Source: Commission on Higher Education

ANNEX 9: GEOMAPPING OF CPAs IN PUBLIC PRACTICE EDUCATION, COMMERCE AND INDUSTRY

A. Enterprise to Auditor Ratio For Entities Required to Submit Audited Financial Statements to the Bureau of Internal Revenue

GEOMAP A



Enterprise to Auditor Ratio for Entities Required to Submit Audited Financial Statements to the Bureau of Internal Revenue

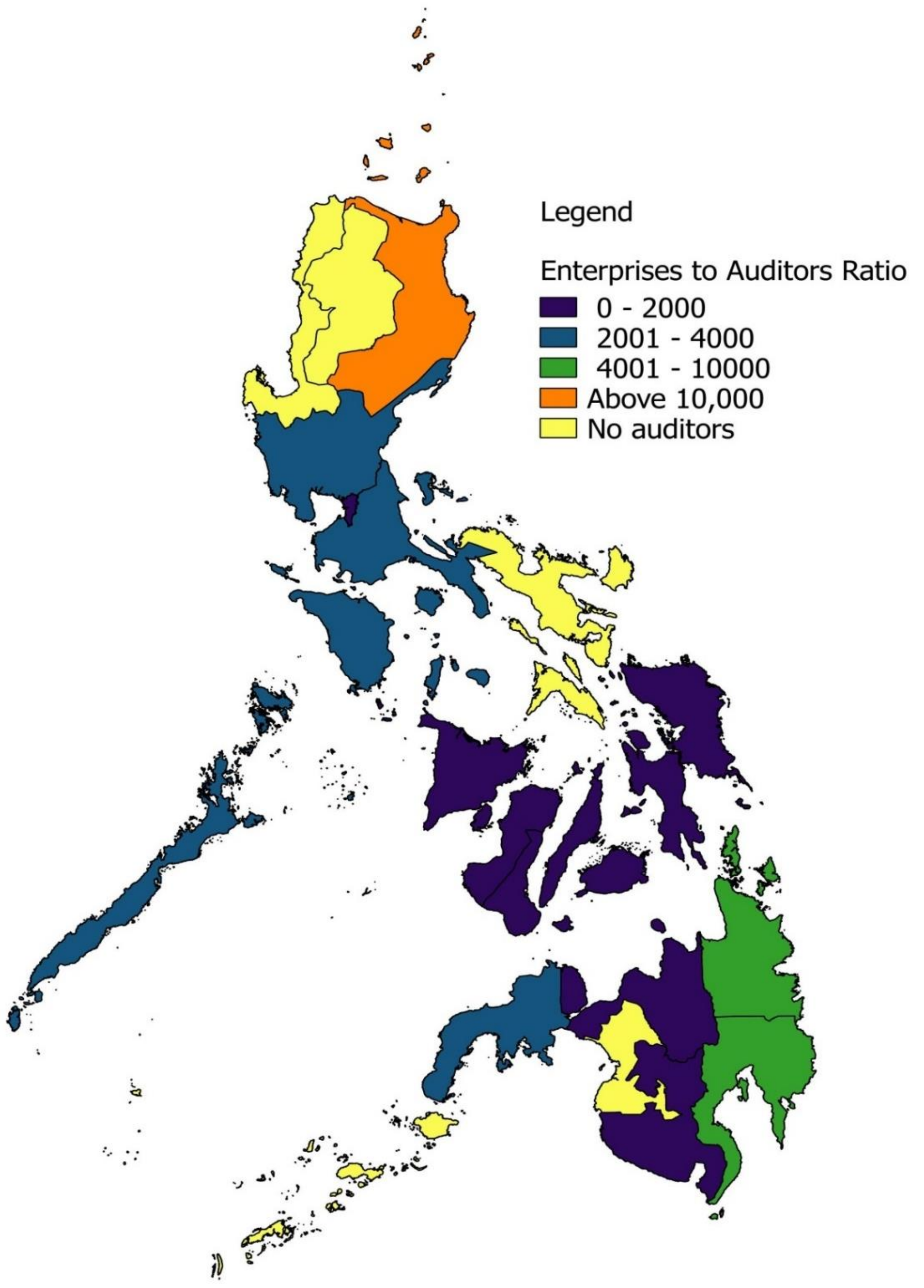
TABLE A

Province	Entities with Gross Income Above 600,000 Pesos[122]	CPAs Accredited in Public Practice[123]	Enterprise per Auditor Ratio
Abra	183	5	37
Agusan Del Norte	568	37	15
Agusan Del Sur	232	0	No CPAs
Aklan	1165	28	42
Albay	1360	17	80
Antique	340	6	57
Apayao	0	6	0
Aurora	187	0	No CPAs
Basilan	46	0	No CPAs
Bataan	936	31	30
Batanes	0	1	0
Batangas	5278	112	47
Benguet	1733	1	1733
Biliran	0	3	0
Bohol	1074	3	358
Bukidnon	1770	33	54
Bulacan	6068	248	24
Cagayan	1091	28	39
Camarines Norte	692	0	No CPAs
Camarines Sur	1387	99	14
Camiguin	0	0	0
Capiz	506	13	39
Catanduanes	236	6	39
Cavite	8043	397	20
Cebu	13327	278	48
Compostela Valley	0	8	0
Davao Del Norte	1845	13	142
Davao Del Sur	6433	241	27
Davao Oriental	290	0	No CPAs
Eastern Samar	228	0	No CPAs
Guimaras	0	0	0
Ifugao	85	2	43
Ilocos Norte	679	18	38
Ilocos Sur	870	49	18
Iloilo	2268	93	24
Isabela	700	59	12
Kalinga	176	0	No CPAs
La Union	931	19	49
Laguna	8277	319	26
Lanao Del Norte	1071	28	38
Lanao Del Sur	67	2	34
Leyte	1929	54	36
Maguindanao	214	0	No CPAs
Marinduque	146	5	29
Masbate	249	7	36
Metropolitan Manila	107464	4062	26
Misamis Occidental	722	17	42
Misamis Oriental	2773	78	36
Mountain Province	81	5	16
Negros Occidental	4947	140	35
Negros Oriental	893	25	36
North Cotabato	596	30	20
Northern Samar	238	0	No CPAs
Nueva Ecija	1436	50	29
Nueva Vizcaya	348	11	32
Occidental Mindoro	623	17	37
Oriental Mindoro	626	26	24
Palawan	977	23	42
Pampanga	5299	140	38
Pangasinan	3601	49	73
Quezon	2378	18	132
Quirino	149	1	149
Rizal	0	498	0
Romblon	235	5	47
Samar	259	18	14
Siquijor	0	1	0
Sorsogon	458	5	92
South Cotabato	2260	75	30
Southern Leyte	253	0	No CPAs
Sultan Kudarat	445	1	445
Sulu	6	0	No CPAs
Surigao Del Norte	356	3	119
Surigao Del Sur	225	15	15
Tarlac	1658	2	829
Tawi-Tawi	4	2	2
Zambales	1808	40	45
Zamboanga Del Norte	329	14	24
Zamboanga Del Sur	1312	61	22
Zamboanga Sibugay	237	0	No CPAs

[122] Taxpayers with revenue above 600,000 pesos required to submit Audited Financial Statements as of December 31, 2016. Source: Bureau of Internal Revenue
[123] Data as of June 30, 2017. Source: Board of Accountancy

B. Enterprise to Auditor Ratio For Entities Required to Submit Audited Financial Statements to the Securities and Exchange Commission

GEOMAP B



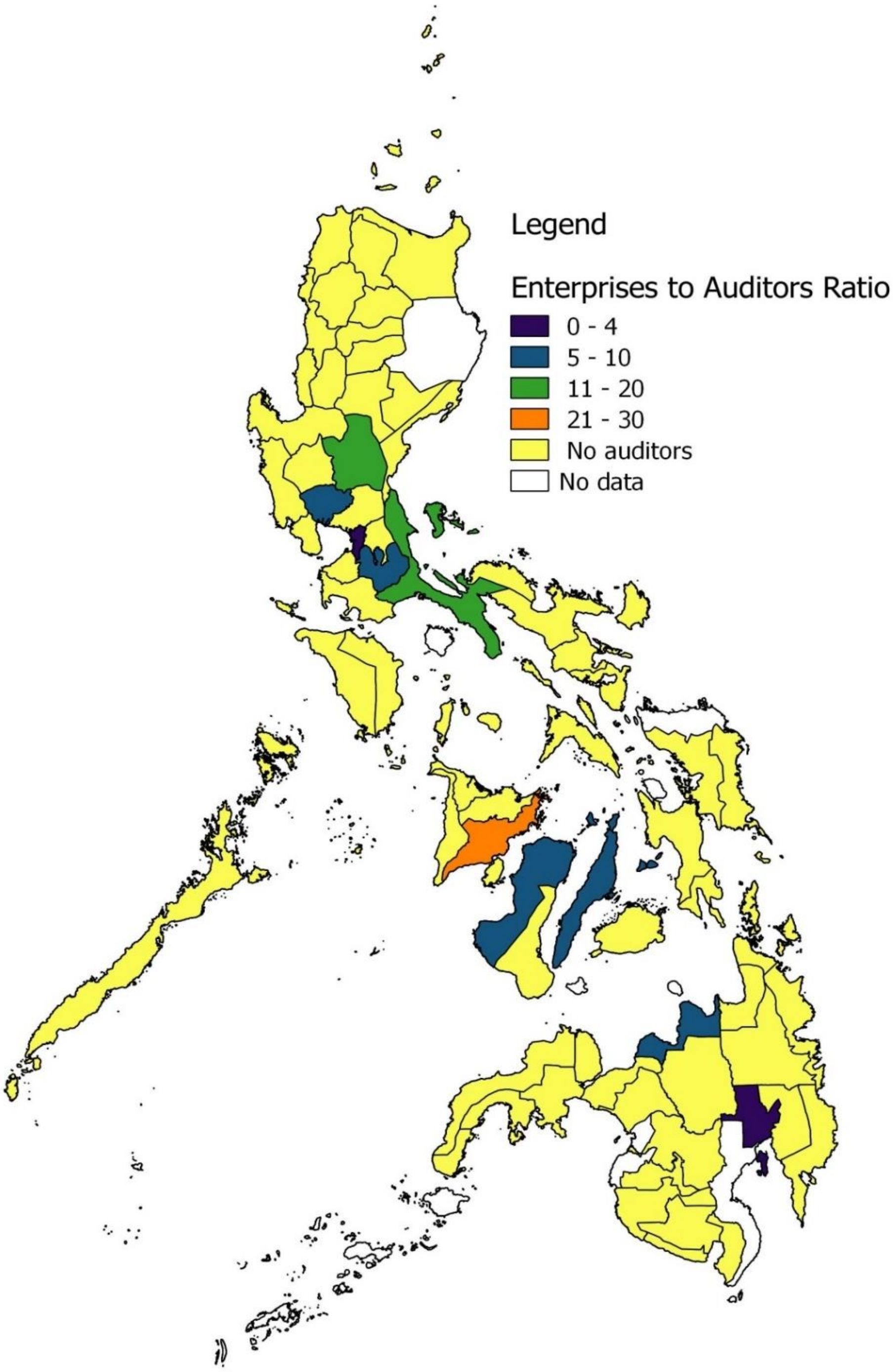
Enterprise to Auditor Ratio for Entities Required to Submit Audited Financial Statements to the Securities and Exchange Commission

TABLE B			
Region	SEC Accredited Auditors	Enterprises	Enterprises per Auditors Ratio
Metropolitan Manila	320	347,554	1086
Cordillera Administrative Region (CAR)	0	12,373	No auditors
Ilocos Region (Region I)	0	27,774	No auditors
Cagayan Valley (Region II)	1	12,789	12789
Central Luzon (Region III)	23	51,308	2231
CALABARZON/ MIMAROPA (Region IV-A&B)	29	72,319	2494
Bicol Region (Region V)	0	14,554	No auditors
Western Visayas (Region VI)	15	27,218	1815
Central Visayas (Region VII)	31	38,785	1251
Eastern Visayas (Region VIII)	4	7,685	1921
Zamboanga Peninsula (Region IX)	3	8,529	2843
Northern Mindanao (Region X)	5	9,299	1860
Davao Region (Region XI)	6	28,328	4721
SOCCSKSARGEN (Region XII)	5	6,902	1380
Caraga (Region XIII)	1	6,061	6061
Autonomous Region of Muslim Mindanao (ARMM)	0	3,497	No auditors

Although there are more than 600,000 active registered corporations as of December 31, 2016 filing audited financial statements with SEC, there are only 3,380 corporations (entities that fall under categories A, B and C of SRC Rule 68) required to engage the services of SEC accredited external auditors.

C. Bangko Sentral ng Pilipinas Selected Auditors and Enterprises

GEOMAP C



Bangko Sentral ng Pilipinas Selected Auditors and Enterprises

TABLE C

Province	Enterprises	Auditors	Enterprises per Auditors Ratio
Abra	1	0	No auditors
Agusan Del Norte	2	0	No auditors
Agusan Del Sur	1	0	No auditors
Aklan	5	0	No auditors
Albay	5	0	No auditors
Antique	3	0	No auditors
Apayao	1	0	No auditors
Aurora	4	0	No auditors
Bataan	11	0	No auditors
Batanes	1	0	No auditors
Batangas	32	0	No auditors
Benguet	10	0	No auditors
Bohol	5	0	No auditors
Bukidnon	7	0	No auditors
Bulacan	19	0	No auditors
Cagayan	18	0	No auditors
Camarines Norte	5	0	No auditors
Camarines Sur	13	0	No auditors
Capiz	4	0	No auditors
Catanduanes	1	0	No auditors
Cavite	22	0	No auditors
Cebu	37	7	5.3
Compostela Valley	3	0	No auditors
Davao Del Norte	8	2	4.0
Davao Oriental	2	0	No auditors
Dinagat Islands	1	0	No auditors
Eastern Samar	2	0	No auditors
Guimaras	1	0	No auditors
Ifugao	1	0	No auditors
Ilocos Norte	2	0	No auditors
Ilocos Sur	9	0	No auditors
Iloilo	30	1	30.0
Kalinga	2	0	No auditors
La Union	11	0	No auditors
Laguna	35	5	7.0
Lanao Del Norte	4	0	No auditors
Lanao Del Sur	1	0	No auditors
Leyte	7	0	No auditors
Maguindanao	1	0	No auditors
Masbate	1	0	No auditors

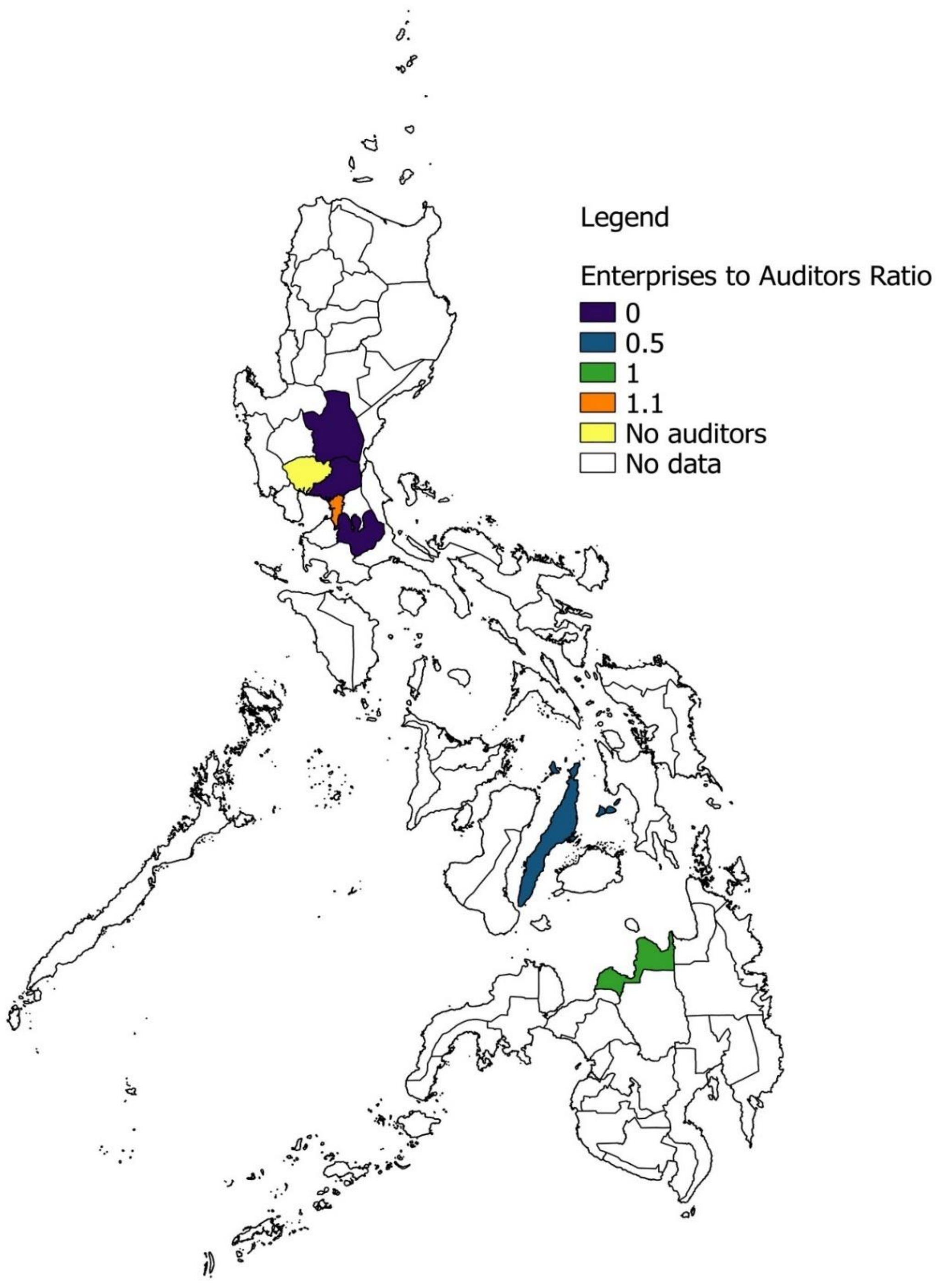
Province	Enterprises	Auditors	Enterprises per Auditors Ratio
Metropolitan Manila	148	61	2.4
Misamis Occidental	10	0	No auditors
Misamis Oriental	12	2	6.0
Mountain Province	3	0	No auditors
Negros Occidental	13	2	6.5
Negros Oriental	12	0	No auditors
North Cotabato	3	0	No auditors
Nueva Ecija	16	1	16.0
Nueva Vizcaya	11	0	No auditors
Occidental Mindoro	3	0	No auditors
Oriental Mindoro	14	0	No auditors
Palawan	6	0	No auditors
Pampanga	19	2	9.5
Pangasinan	20	0	No auditors
Quezon	20	1	20.0
Quirino	2	0	No auditors
Rizal	9	0	No auditors
Romblon	3	0	No auditors
Samar	3	0	No auditors
Sarangani	2	0	No auditors
Sorsogon	3	0	No auditors
South Cotabato	5	0	No auditors
Southern Leyte	4	0	No auditors
Sultan Kudarat	2	0	No auditors
Surigao Del Norte	2	0	No auditors
Surigao Del Sur	4	0	No auditors
Tarlac	8	0	No auditors
Zambales	11	0	No auditors
Zamboanga Del Norte	9	0	No auditors
Zamboanga Del Sur	7	0	No auditors
Zamboanga Sibugay	1	0	No auditors

While there are no auditors in certain regions, entities may engage the services of auditors in regions with available auditors or in Metro Manila (especially for large scale entities).

Data as of 31 December 2016, from Bangko Sentral ng Pilipinas

D. Insurance Commission Accredited Auditors and Enterprises

GEOMAP D

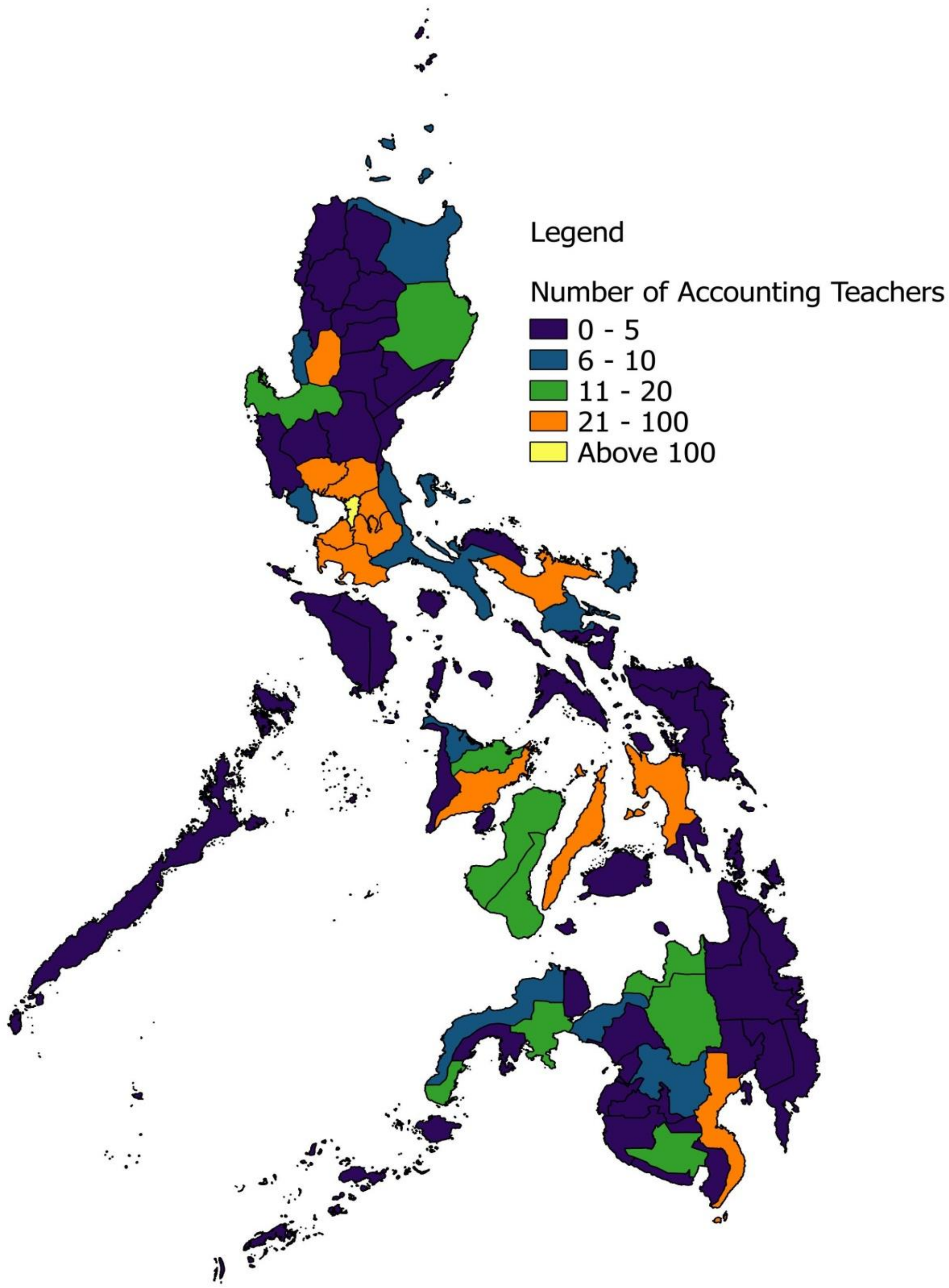


Insurance Commission Accredited Auditors and Enterprises

TABLE D			
Province	Insurance Companies	Auditors	Enterprises per Auditors Ratio
Bulacan	0	1	0
Cagayan de Oro	1	1	1
Cebu	1	2	0
Laguna	0	1	0
Nueva Ecija	0	1	0
Metropolitan Manila	99	92	1
Data as of August 1, 2017			

E. Board of Accountancy – CPAs Accredited as Accounting Teachers

Geomap E



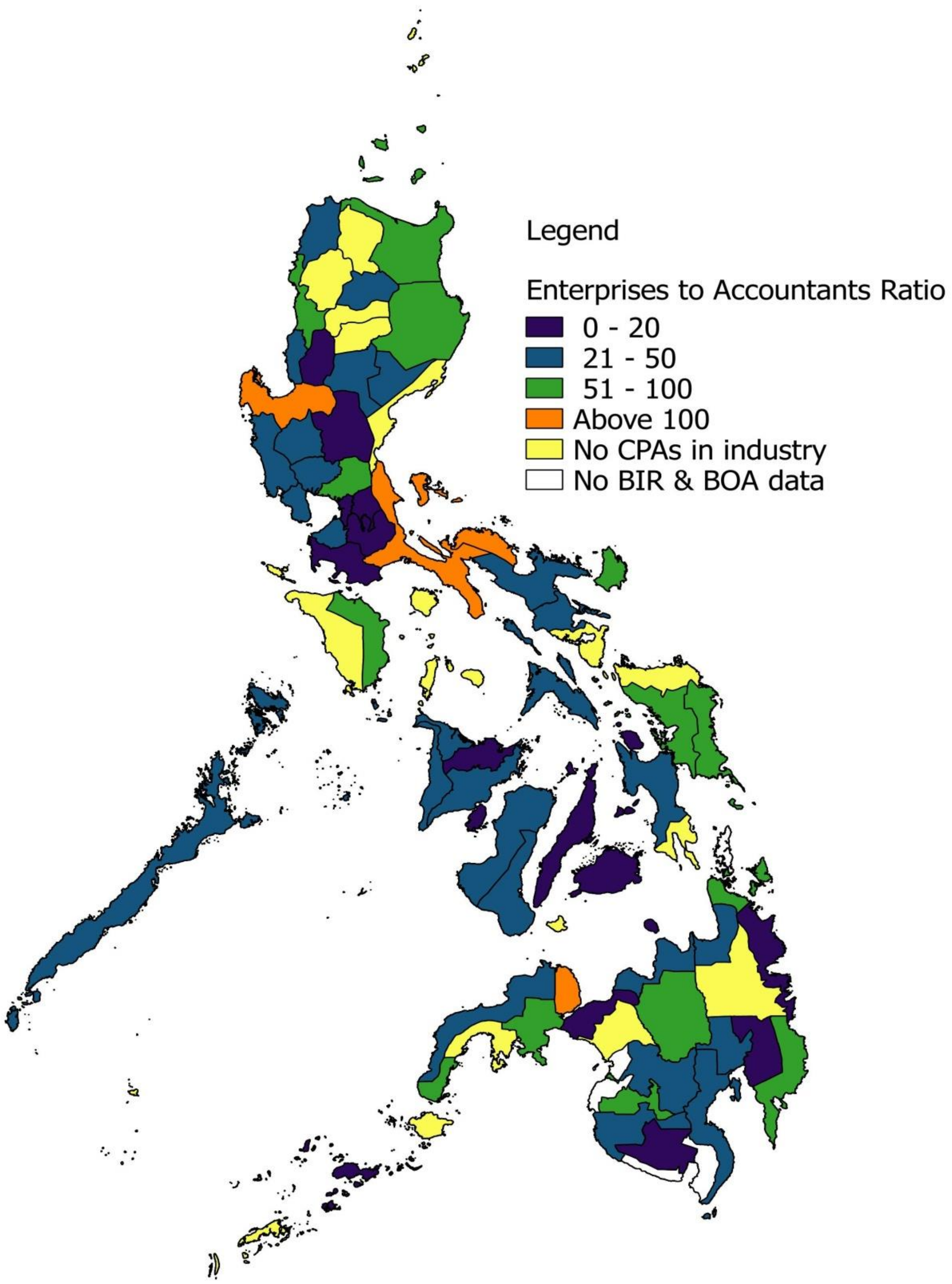
Board of Accountancy – CPAs Accredited as Accounting Teachers

TABLE E

Province	BOA Accredited CPA Teachers	Province	BOA Accredited CPA Teachers
Abra	1	**Lanao Del Sur**	0
Agusan Del Norte	1	**Leyte**	25
Agusan Del Sur	0	**Maguindanao**	0
Aklan	7	**Marinduque**	0
Albay	10	**Masbate**	0
Antique	3	**Metropolitan Manila**	303
Apayao	0	**Misamis Occidental**	2
Aurora	0	**Misamis Oriental**	13
Basilan	0	**Mountain Province**	1
Bataan	7	**Negros Occidental**	19
Batanes	0	**Negros Oriental**	12
Batangas	21	**North Cotabato**	10
Benguet	25	**Northern Samar**	1
Biliran	0	**Nueva Ecija**	3
Bohol	0	**Nueva Vizcaya**	3
Bukidnon	11	**Occidental Mindoro**	0
Bulacan	29	**Oriental Mindoro**	3
Cagayan	9	**Palawan**	5
Camarines Norte	2	**Pampanga**	46
Camarines Sur	21	**Pangasinan**	17
Camiguin	0	**Quezon**	9
Capiz	16	**Quirino**	0
Catanduanes	10	**Rizal**	36
Cavite	63	**Romblon**	0
Cebu	42	**Samar**	3
Compostela Valley	0	**Siquijor**	0
Davao Del Norte	2	**Sorsogon**	1
Davao Del Sur	27	**South Cotabato**	12
Davao Oriental	0	**Southern Leyte**	0
Eastern Samar	0	**Sultan Kudarat**	3
Guimaras	0	**Sulu**	0
Ifugao	0	**Surigao Del Norte**	0
Ilocos Norte	5	**Surigao Del Sur**	0
Ilocos Sur	2	**Tarlac**	5
Iloilo	45	**Tawi-Tawi**	0
Isabela	19	**Zambales**	1
Kalinga	3	**Zamboanga Del Norte**	6
La Union	6	**Zamboanga Del Sur**	14
Laguna	42	**Zamboanga Sibugay**	0
Lanao Del Norte	9		

F. Board of Accountancy – CPAs Accredited in Commerce and Industry

GEOMAP F



Board of Accountancy – CPAs Accredited in Commerce and Industry

TABLE F

Province	Entities with gross income > 10M	CPAs Accredited	Enterprises per CPA Ratio	Province	Entities with gross income > 10M	CPAs Accredited	Enterprises per CPA Ratio
Abra	41	0	No CPAs	**Lanao Del Sur**	47	0	No CPAs
Agusan Del Norte	242	5	48	**Leyte**	586	25	23
Agusan Del Sur	75	0	No CPAs	**Maguindanao**	89	1	89
Aklan	219	7	31	**Marinduque**	24	0	No CPAs
Albay	430	9	48	**Masbate**	88	2	44
Antique	94	3	31	**Metropolitan Manila**	36257	3363	11
Apayao	0	0	No CPAs	**Misamis Occidental**	166	1	166
Aurora	41	0	No CPAs	**Misamis Oriental**	803	40	20
Basilan	17	0	No CPAs	**Mountain Province**	33	0	No CPAs
Bataan	393	19	21	**Negros Occidental**	1242	42	30
Batanes	0	0	No CPAs	**Negros Oriental**	286	10	29
Batangas	1465	74	20	**North Cotabato**	205	6	34
Benguet	485	45	11	**Northern Samar**	84	0	No CPAs
Biliran	0	1	0	**Nueva Ecija**	485	25	19
Bohol	228	16	14	**Nueva Vizcaya**	121	5	24
Bukidnon	341	4	85	**Occidental Mindoro**	158	0	No CPAs
Bulacan	1894	30	63	**Oriental Mindoro**	227	3	76
Cagayan	428	7	61	**Palawan**	304	11	28
Camarines Norte	140	1	140	**Pampanga**	1815	67	27
Camarines Sur	429	17	25	**Pangasinan**	873	8	109
Camiguin	0	1	0	**Quezon**	605	6	101
Capiz	139	10	14	**Quirino**	49	1	49
Catanduanes	77	1	77	**Rizal**	0	32	0
Cavite	2367	104	23	**Romblon**	55	0	No CPAs
Cebu	4191	263	16	**Samar**	94	1	94
Compostela Valley	0	1	0	**Siquijor**	0	0	No CPAs
Davao Del Norte	404	18	22	**Sorsogon**	117	0	No CPAs
Davao Del Sur	1873	82	23	**South Cotabato**	621	36	17
Davao Oriental	55	1	55	**Southern Leyte**	69	0	No CPAs
Eastern Samar	55	1	55	**Sultan Kudarat**	150	4	38
Guimaras	0	1	0	**Sulu**	4	1	4
Ifugao	43	0	No CPAs	**Surigao Del Norte**	126	2	63
Ilocos Norte	237	6	40	**Surigao Del Sur**	73	5	15
Ilocos Sur	253	4	63	**Tarlac**	517	17	30
Iloilo	753	30	25	**Tawi-Tawi**	0	0	No CPAs
Isabela	365	5	73	**Zambales**	710	33	22
Kalinga	62	3	21	**Zamboanga Del Norte**	147	3	49
La Union	259	7	37	**Zamboanga Del Sur**	481	8	60
Laguna	2594	194	13	**Zamboanga Sibugay**	64	0	No CPAs
Lanao Del Norte	215	13	17				