

[IC CIRCULAR NO. 30-2005, September 26, 2005]

**ACCREDITATION AND REPORTORIAL REQUIREMENTS OF
EXTERNAL AUDITORS**

SEC. 1. Policy Statement - In order to further strengthen the regulatory framework of this Commission and enhance confidence on the audited financial statements, the Commission hereby adopts a policy on the accreditation of external auditors and their reporting requirements. High ethical and qualification standards and strict reporting obligations for external auditors of entities under the jurisdiction and supervision of this Commission shall be imposed to encourage quality control and disciplined financial environment.

SEC. 2. Coverage - This Circular shall be enforceable upon all insurance/reinsurance companies, professional reinsurers, insurance and reinsurance brokers, general agents, mutual benefit associations (MBAs) and trusts for charitable uses (Trusts) and their external auditors, including the auditing firms in which such auditors are co-owners/partners.

SEC. 3. Definition of Terms under this Circular

3.1 External Auditor _ is an independent Certified Public Accountant (CPA) whose relationship with his client pertains mainly to the expression of opinion on the financial statements. It may be a single practitioner or a signing partner in an auditing firm.

3.2 Auditing Firm _ means either the partners of a firm providing audit services or a sole practitioner providing audit services, as appropriate.

3.3 Fraud - means an intentional act by one or more individuals among management, employees, or third parties, which results in a misrepresentation of financial statements. It may involve:

- (i) Manipulation, falsification or alteration of records or documents.
- (ii) Misappropriation of assets.
- (iii) Suppression or omission of the effects of transactions from records or documents.
- (iv) Recording of transactions without substance.
- (v) Misapplication of accounting policies

3.4 Error - means an unintentional mistake in financial statements such as:

- (i) Mathematical or clerical mistake in the underlying records and accounting data.

(ii) Oversight or misinterpretation of facts.

(iii) Misapplication of accounting policies.

3.5 Gross negligence - means wanton or reckless disregard of the duty of due care in complying with generally accepted auditing standards (GAAP).

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

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

3.8 Associate _ any director, officer, manager or any person occupying a similar status or performing similar functions in the audit firm including employees performing supervisory role in the auditing process.

3.9 Lead Partner _ the engagement partner/partner-in-charge/managing partner who is responsible for signing the audit report on the consolidated financial statements of the audit client, and where relevant, the individual audit report of any entity whose financial statements form part of the consolidated financial statements.

3.10 Concurring Partner _ the partner responsible for reviewing the audit report.

3.11 Auditor-in-Charge _ the team leader of the audit engagement.

3.12 Entities _ shall include all companies under the jurisdiction of the Commission.

SEC. 4. Scope and Limitations of Accreditation

4.1 Only an auditing firm who is accredited by the Commission shall be engaged by insurance and reinsurance companies covered by this Circular for statutory audits; while an individual external auditor may be engaged by insurance and reinsurance brokers, general agents, mutual benefit associations and trusts for charitable uses

4.2 The accreditation of an auditing firm shall not cover its signing partner and auditors under its employment. The auditor/signing partner responsible for the engagement must be separately accredited by the Commission.

4.3 The accreditation of external auditors does not relieve the management of the reporting entity of its responsibility. The responsibility of preparing and presenting the financial statements is that of the entity's management. The auditor's responsibility is to audit financial statements in order to express an opinion thereon.

4.4 The Commission shall not be liable for any liability or loss that may arise from the selection of said accredited external auditor and/or auditing firm to be engaged by an entity for regular audit.

4.5 The accreditation of an external auditor and/or auditing firm shall expire or it shall be automatically delisted after a period of three (3) years from date of

approval of his accreditation, unless renewed before expiry date.

SEC. 5. General Requirements

All insurance/reinsurance companies, professional reinsurers, insurance/reinsurance brokers, general agents, MBAs and Trusts which have engaged their respective external auditors for a consecutive period of five (5) years or more (as of date of effectivity of this Circular) shall have a one-year period from the said date within which to change their external auditor or rotate lead and concurring partners.

5.1 Qualification Requirements

- i. The external auditor/partner-in-charge shall be duly registered with Professional Regulation Commission (PRC) / Board of Accountancy (BOA), and entitled to practice as such, under the laws governing the practice of public accounting in the Philippines.
- ii. The external auditor/partner-in-charge shall comply with the Code of Professional Ethics for CPAs promulgated by the BOA and approved by the PRC. Ethical principles governing the auditor's professional responsibilities are independence, integrity, objectivity, professional competence and due care, confidentiality, professional behavior and technical standards.
- iii. The external auditor/partner-in-charge shall conduct an audit in accordance with Philippine Standards on Auditing (PSA).

5.2. Other Requirements

Individual External Auditor

- i. At the time of application, the external auditor (i.e. single practitioner or signing partner in an auditing firm) shall have at least five (5) years experience in the regular audits, of which no less than two (2) years thereof must have been spent in auditing the type of entity covered under this Circular. Regarding external auditors with five (5) years experience in regular audit but without experience in the field of insurance, the Commission may consider the participation in insurance/reinsurance accounting/auditing seminars conducted by Insurance Institute for Asia and the Pacific, Inc. (IIAP), Philippine Insurance Institute (PII), and any other organization or association duly recognized by this Commission.
- ii. The regular audit above refers to experience acquired as an auditor-in-charge, managing partner or their equivalent.
- iii. An external auditor acting as signing partner of an auditing firm who meets all the aforementioned qualification requirements and who has the fundamental knowledge of the regulatory requirements on each of the entities covered by this Commission shall be generally accredited, hence qualified to audit all companies covered by this Circular.

Auditing Firm

At the time of application, an auditing firm shall have at least one (1) signing practitioner or partner who is already accredited, or who is already qualified and is applying for accreditation by the Commission.

SEC. 6. Application by Individual External Auditors

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

(i) Copy of updated PRC license and Certificate of Registration as a public practitioner issued by the BOA/PRC;

(ii) Copy of the proposed Audit Engagement Letter to be duly acknowledged by the client company prepared in accordance with Annex "A"* of this Circular, and/or existing engagement contracts with clients;

(iii) Certification from any professional organization or association duly recognized/accredited by the Commission or by the BOA/PRC that the auditor has attended a complete course in any insurance-related course. Such training shall be in subjects like international accounting standards, corporate governance, taxation and other topics relevant to his practice;

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(iv) Written undertaking that: (1) the external auditor and the members of his immediate family have no direct or material indirect financial interest with any of the entities specified in this Circular. (2) the external auditor has no loan to or from any of the entities specified or to any officer, director or principal stockholder thereof;

(v) Notarized certification from PRC that the external auditor has no pending administrative and/or criminal case nor was previously convicted for a crime involving moral turpitude or fraud (as defined in the Revised Penal Code), or declared liable by the Commission or by any court for violation of the Corporation Code or the Insurance Code;

(vi) Undertaking under Oath that the external auditor/partner in-charge shall preserve his working papers or any other related documents for a period of five (5) years and making them available to the Commissions' representatives when required or directed to do so;

(vii) In case of an application for general accreditation, notarized certification that the signing partner/s of an auditing firm has fundamental knowledge of the regulatory requirements on each of the entities covered by this Commission.

6.2. The accreditation may be renewed by filing a duly accomplished renewal application form (IC Form A-R) and attaching the following documents:

(i) Copy of updated PRC license and Certificate of Registration as a public practitioner issued by BOA/PRC;

(ii) Copy of the proposed Audit Engagement Letter to be duly acknowledged by the clients prepared in accordance with Annex "A" of

this Circular, and/or existing contracts with clients;

(iii) Notarized certification from PRC that the external auditor has no pending administrative and/or criminal case nor was previously convicted for a crime involving moral turpitude or fraud (as defined in the Revised Penal Code), or declared liable by the Commission or by any court for violation of the Corporation Code or the Insurance Code;

(iv) Certification from any professional organization or association duly recognized/accredited by the Commission or by the BOA/PRC that the auditor has attended or participated in relevant accounting and auditing or in any other insurance-related courses for at least twelve (12) hours yearly beginning June 01, 2005. Such training shall be in subjects like international accounting standards, international standards of auditing, corporate governance, taxation and other topics relevant to his practice;

(v) Written undertaking that: (1) the external auditor and the members of his immediate family have no direct or material indirect financial interest with any of the entities specified in this Circular, (2) the external auditor has no loan to or from any of the entities specified or to any officer, director or principal stockholders thereof.

6.3. The application for initial or renewal accreditation of an external auditor shall be accompanied by a fee of Two Thousand Pesos (P 2,000.00).

SEC. 7. Application for Accreditation by Auditing Firms

7.1 For initial accreditation, a duly accomplished and notarized application form (IC Form B) shall be signed by the managing partner of the auditing firm and shall be submitted to the Commission together with the following documents:

i. Copy of Privilege Tax Receipt (PTR);

ii. Copy of updated Certificate of Registration as a public practitioner issued by BOA/PRC to the firm;

iii. Certification from any professional organization or association duly recognized/accredited by the Commission that the partner-in-charge of the auditing firm has attended insurance related courses particularly on insurance/reinsurance accounting and auditing subjects;

iv. Copy of the firm's proposed Audit Engagement Letter to be duly acknowledged by the clients prepared in accordance with Annex "A" of this Circular and/or existing engagement contracts with clients;

v. List of existing contracts/agreements with its audit clients covered by this Circular involving services other than statutory audit of financial statements;

vi. Written undertaking that the partners, associates, auditor-in-charge of the engagement and the members of their immediate family have no direct or indirect financial interest with any of the entities specified in this Circular and have any loan to or from the entities earlier cited or to any officer, director or principal stockholders thereof;