

**[ SEC MEMORANDUM CIRCULAR NO. 13, S. 2003,  
October 23, 2003 ]**

**ACCREDITATION AND REPORTORIAL REQUIREMENTS OF  
EXTERNAL AUDITORS OF PUBLIC COMPANIES AND SECONDARY  
LICENSEES OF THE COMMISSION**

**SEC. 1. Policy Statement**

In order to strengthen the enforcement capacity of the Commission as a regulatory body and increase reliance on the opinion of external auditors, the Commission hereby adopts a policy on the accreditation of external auditors and their reporting requirements. High qualification standards and strict reporting obligations for external auditors of public companies and secondary licensees of the Commission shall be maintained and monitored through a system that will encourage quality control and disciplined financial environment.

**SEC. 2. Coverage**

This Circular shall be enforceable upon all public companies and secondary licensees of the Commission, and their external auditors, including the auditing firms in which such auditors are co-owners/partners.

Unless specifically exempted, all requirements provided hereunder shall apply to all companies mentioned in the preceding paragraph.

**SEC. 3. Definition of Terms Under this Circular**

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

**3.2 Fraud** means an intentional act by one or more individuals among management, employees, or third parties that results in a misrepresentation of financial statements, which will reduce the consolidated total assets of the company by five percent (5%). It may involve:

- i. Manipulation, falsification or alteration of records or documents.
- ii. Misappropriation of assets.
- iii. Suppression or omission of the effects of transaction from records or documents.
- iv. Recording of transactions without substance.
- v. Intentional misapplication of accounting policies.
- vi. Omission of material information.

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

- i. Mathematical or clerical mistakes in the underlying records and accounting data.
- ii. Oversight or misinterpretation of facts.
- iii. Unintentional misapplication of accounting policies.

3.4 Gross negligence means wanton or reckless disregard of the duty of due care in complying with generally accepted auditing standards.

3.5 Material information means information whose omission or misstatement could influence the economic decisions of users.

3.6 Public companies are those which have total assets of at least Fifty million pesos (P50,000,000.00) or such other amount as the Commission shall prescribe, and having two hundred (200) or more holders each holding at least One hundred (100) shares of a class of its equity securities.

3.7 Secondary licensees of the Commission shall include:

- i. Issuers of registered securities which have sold a class of its securities pursuant to a registration under Section 12 of the Securities Regulation Code (SRC);
- ii. Issuers with a class of securities listed for trading in an Exchange;
- iii. Pre-need companies;
- iv. Financing companies;
- v. Investment Houses;
- vi. Brokers and Dealers of securities;
- vii. Investment companies;
- viii. Government Securities Eligible Dealers (GSEDs);
- ix. Universal Banks Registered as Underwriters of Securities;
- x. Investment company advisers;
- xi. Transfer agents;
- xii. Clearing Agency and Clearing Agency as Depository;
- xiii. Issuers of Registered Time Shares, Proprietary and Non-Proprietary Membership Certificates;
- xiv. Stock and securities exchange/s.

3.8 Pre-need company or issuer means any corporation registered with the Commission and authorized/licensed to issue pre-need plans.

3.9 All Other market participants refers to all holders of secondary licensees mentioned under subparagraph (iv) to (xiv) of Section 3.7 above.

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

4.1. Only an external auditor, and his auditing firm if applicable, who is accredited by the Commission shall be engaged by corporations covered by this Circular for statutory audits.

4.2. The accreditation of an auditing firm shall not cover its signing partners 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 exonerate the reporting company or said auditors from their responsibilities. Financial statements filed with the Commission are still primarily the responsibility of the management of the

reporting company and accordingly, the fairness of the representations made therein is an implicit and integral part of the issuer's responsibility. The independent certified public accountant's responsibility for the financial statements required to be filed with the Commission is confined to the expression of his opinion, or lack thereof, on such statements which he has examined.

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 a corporation 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. Qualification Requirements**

### 5.1. Individual External Auditors

#### A. General requirements applicable to all applications for accreditation

- i. He shall be in good standing as a professional registered with the Professional Regulation Commission (PRC) and the Board of Accountancy (BOA), and entitled to practice as such under the laws governing the practice of public accounting in the Philippines;
- ii. He shall possess the independence as defined in the Code of Professional Ethics for Certified Public Accountants as promulgated by the Board of Accountancy and approved by the Professional Regulation Commission;
- iii. He shall adhere to the highest standards of professional conduct, including integrity and objectivity;

#### B. Specific Requirements

- 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 external audits, of which no less than two (2) years thereof must have been spent in auditing the type of entity for which accreditation is applied for. In exceptional cases, the Commission may consider the participation in industry-specific accounting/auditing seminars conducted by any professional organization or association duly recognized by the Commission or by the BOA/PRC through a Continuing Professional Education (CPE) Council which they may set up, as compliance with the 2-year requirement.
- ii. The audit experience above refers to experience acquired as an in-charge, manager or partner or their equivalent.
- iii. At the time of application, the applicant must have had experience as external audit of corporate clients with minimum asset bases as follows:

For general at least five (5) clients with total accreditation (i.e. for assets of at least P50 million each public companies and all types of secondary licensees)

For Pre-need at least three (3) clients with total companies only assets of at least P30 million each

For All Other Market at least three (3) clients with total

Participants

asset base of at least P20 million each.

iv. An applicant who meets all the qualification requirements for an external auditor of public companies or issuers of securities to the public/listed companies and certifies that he has fundamental knowledge of the regulatory requirements on each of the other secondary licensees shall be granted a GENERAL ACCREDITATION by the Commission which means that he shall be qualified to audit all companies covered by this Circular.

## 5.2. Auditing Firms

- i. The auditing firm must be in good standing and entitled to conduct auditing services under all applicable laws, rules and regulations;
- ii. At the time of application, it must 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 (SEC Form ExA-001<sup>\*</sup>) shall be submitted by the applicant external auditor to the Commission, together with the following documents:

- i. A copy of the Statement of Representation as required under paragraph 3(c) (v) of SRC Rule 68 which may be submitted only once;
- ii. Copy of updated PRC license and Certificate of Registration as a public practitioner issued by the Board of Accountancy (BOA)/Professional Regulation Commission (PRC);
- iii. Notarized certification of the external auditor that he is in compliance with the qualification requirements under Section 5.1 of this Circular and that he has not been convicted by a competent court for a crime involving moral turpitude or fraud (as defined in the Revised Penal Code), or declared liable by the Commission or by any competent court for violation of the Corporation Code or the Securities Regulation Code.
- iv. In case of an application for general accreditation, notarized certification that the applicant has fundamental knowledge of the regulatory requirements on each of the other secondary licensees of the Commission.

6.2 The accreditation may be renewed by filing a duly accomplished renewal application for (SEC Form ExA-001-R<sup>\*</sup>) and attaching the following documents:

- i. Copy of updated PRC license and of the Certificate of Registration as a public practitioner issued by BOA/PRC which should be current and effective.
- ii. Notarized certification of the external auditor that he is in compliance with the qualification requirements under Section 5.1 of this Circular and that he has not been convicted by a competent court for a crime involving moral turpitude, fraud (as defined in the Revised Penal Code), or declared liable by the Commission or by any competent court for violation of the Corporation Code of the Philippines or the SRC.
- iii. Written proof that the auditor has attended or participated in relevant accounting and auditing training for at least twelve (12) hours yearly beginning

January 01, 2003. Such training shall be in subject like international accounting standards, international standards of auditing, corporate governance, taxation and other topics relevant to his practice, conducted by any professional organization or association duly recognized/accredited by the Commission or by the BOA/PRC through a CPE Council which they may set up.

6.3. The application for initial or renewal accreditation of an external auditor shall be accompanied by a fee of Two Thousand Pesos (P2,000.00).

## **SEC. 7. Application for Accreditation by Auditing Firms**

7.1 For initial accreditation, a duly accomplished and notarized application form (SEC Form AuF-002<sup>\*</sup>) 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 the Certificate of Registration as a public practitioner issued by BOA/PRC to the firm which is current and effective;
- iii. Copy of the firm's Pro-Forma Audit Engagement Letter with prospective clients prepared in accordance with Annex "A<sup>\*</sup>" of this Circular and/or existing engagement contracts with clients;
- iv. Summary of contracts/agreements with its audit clients covered by this Circular involving services other than statutory audit of financial statements;
  - i. Notarized certification that the firm is in compliance with the general qualification requirements under Section 5.2 of this Circular;
- v. Written general description of the following:
  - a. quality assurance process, such as, but not limited to client acceptance and retention policies, concurring partner review, consultation process, etc;
  - b. procedure for monitoring professional ethics and independence from clients;
  - c. other quality assurance policies or procedures provided in Philippine Standard on Auditing No. 220 or as may be required by the Commission.
- vi. Copy of audited financial statements for the immediately preceding two (2) years.
- vii. Undertaking under Oath that the external auditor shall fully cooperate with the regulator by preserving his working papers for a period of seven (7) years and making them available to the Commission's representative when required or directed to do so.

7.3 The accreditation may be renewed by filing a duly accomplished renewal application for (SEC Form AuF-002-R<sup>\*</sup>) with the following documents:

- i. Current PTR;
- ii. A certified true copy of the Certificate of Registration with BOA/PRC which is valid and effective;
- iii. Notarized certification that the firm is in compliance with the general qualification requirements under Section 5.2.

7.4 The application for initial or renewal accreditation of an auditing firm shall be accompanied by a fee of Five Thousand Pesos (P5,000).