

[BSP CIRCULAR LETTER, May 22, 2001]

**SELECTION APPOINTMENT AND THE REPORTING REQUIREMENT
FOR EXTERNAL AUDITORS OF UNIVERSAL BANKS (UBS) AND
COMMERCIAL BANKS (KBS)**

The Monetary Board, in its Resolution No. 540 dated April 5, 2001 approved the replacement of the word "accreditation" and the modification of the required certification from the Professional Regulation Commission under Circular No. 245 dated May 19, 2000.

Pursuant thereto, attached is a re-issuance of Circular No. 245 as amended.

Adopted: 22 May 2001

(SGD.) ALBERTO V. REYES
Deputy Governor

**Circular No. 245, s. 2000
(Re-issued)**

SECTION 1. Statement of Policy - Under section 6-D of Republic Act No. 337, as amended, the Monetary Board may require a bank to engage the services of an independent auditor to be chosen by the bank concerned from a list of certified public accountants acceptable to the Monetary Board. The adoption of a policy to select external auditors and in connection thereto, prescribe appropriate selection criteria will ensure that the reliance by bank regulatory authorities on the opinion of external auditors is well-placed. In the long run, enhanced sharing of information between external auditors and the bank regulatory authorities will improve the effectiveness of bank audit and supervision as consistency in the approach of audit and bank examination is promoted and unnecessary duplication of efforts is avoided.

Pursuant thereto, the following rules and regulations shall govern the selection, appointment and the reporting requirement for external auditors of universal banks (UBs) and commercial banks (KBs).

SECTION 2. General Requirements - Only external auditors who may be selected by the Bangko Sentral ng Pilipinas (BSP) shall be engaged by banks for regular audit or special engagements. The following are the requirements for external auditors:

a. No external auditor may be engaged by a bank if he had or was committed to acquire any direct or material indirect financial interest in the bank, or if his independence is considered impaired under the circumstances specified in the Code of Professional Ethics for Certified Public Accountants. In the case of a partnership, this limitation shall apply to the partners, associates and the auditor-in-charge of the engagement.

b. The external auditor and the members of the audit team do not have/shall not have outstanding loans or any credit accommodations (except credit card obligations) with any bank to be audited/ being audited at the time of signing the engagement and during the engagement;

c. The external auditor and members of the audit team adhere to the highest standards of professional conduct, including integrity and objectivity.

d. The external auditor should have at least five (5) years track record in conducting external audits.

e. Other requirements:

i. Must have at least twenty (20) existing corporate clients with resources of P50 million each; and

ii. Must have at least one (1) existing client commercial bank in the regular audit or in lieu thereof, the external auditor and the auditor who will head the team must have at least five (5) years experience in bank audit.

SECTION 3. *Pre-Qualification Requirements* - The application of external auditor together with the information/documents hereunder shall be submitted to the appropriate SES department thru the concerned bank prior to engagement:

a. Notarized certification that the external auditor, partners, associates and the auditor-in-charge of the engagement did not have or are committed to acquire any direct or material indirect financial interest in the bank and their independence is not considered impaired under the circumstances specified in the Code of Professional Ethics for Certified Public Accountants.

b. Notarized certification that the external auditor and the members of the audit team do not have /will not have outstanding loans or any credit accommodations (except credit card obligations) with any bank to be audited/being audited at the time of signing the engagement and during the engagement.

c. Notarized certification that the external auditor and members of the audit team shall adhere to the highest standards of professional conduct, including integrity and objectivity.

d. List of existing corporate clients or in lieu thereof, a notarized certification that the firm or auditor has at least twenty (20) corporate clients with resources of at least P50 million each.

e. Notarized certification that the external auditor has at least one existing client commercial bank in the regular audit or in lieu thereof, a notarized certification that the external auditor and the auditor who will head the team have at least five (5) years experience in bank audit.

f. Updated PRC license (for individual auditors)/ business license for partnership.

g. Notarized certification that the audit work will consider the BSP criteria for