



Bangko Sentral ng Pilipinas

MANILA

OFFICE OF THE GOVERNOR

CIRCULAR NO. 245
Series of 2000

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 accredit external auditors and in connection thereto, prescribe appropriate accreditation 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 Monetary Board, in its Resolution No. 737 dated May 5, 2000, approved the following rules and regulations to govern the accreditation, appointment and the reporting requirement for external auditors of universal banks and commercial banks (KBs).

Section 2. GENERAL REQUIREMENTS

Only external auditors who may be accredited by the Bangko Sentral Ng Pilipinas (BSP) shall be engaged by banks for regular audit or special engagements. The following are the accreditation 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. ACCREDITATION REQUIREMENTS

The application for accreditation of external auditor together with the information/documents required 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 classifying accounts and setting-up reserves as provided in the Manual of Regulations for Banks.
- h. Copy of the proposed engagement contract between the bank and the external auditor.
- i. Certification from the Professional Regulation Commission that the external auditor and the members of the audit team have no derogatory information, previous conviction or any pending investigation.

An external auditor who has been accredited by the BSP for a commercial bank is automatically accredited to audit other banks. The BSP will circularize to all banks the list of accredited external auditors once a year.

Section 4. REQUIRED REPORT

To enable the Bangko Sentral to take timely and appropriate remedial action, the bank engaging the services of a BSP accredited external auditor for a regular audit or special engagement shall include in every contract of engagement the provision that the external auditor must report to the Bangko Sentral ng Pilipinas within thirty (30) calendar days of discovery, during his audit field work, the following cases which may be discovered based on generally accepted auditing standards:

- a. Any material finding discovered during the period of audit involving fraud or dishonesty (including cases that were resolved during the period of audit) which will reduce the capital funds of the bank by at least one per cent (1%);
- b. Adjustments or potential losses the aggregate of which amounts to at least one per cent (1%) of the capital funds of the bank; and
- c. Any finding to the effect that the total bank assets, on a going concern basis, are no longer adequate to cover the total claims of creditors.

The contract between the bank and the external auditor shall contain a provision that the disclosure of information by the external auditor to the BSP shall not be a ground for civil, criminal or disciplinary proceedings against the auditor.

Bank management shall be present during discussions or at least, be informed of the adverse findings in order to preserve the concerns of the supervisory authority and external auditors regarding the confidentiality of information. The appropriate department of the Bangko Sentral shall conduct the necessary investigation or special examination to substantiate the report of the external auditor.

Section 5. GROUNDS FOR DELISTING

External auditors shall be delisted from the accreditation list under the following circumstances:

- a. Failure to submit the required report under Section 4 of this Circular within the prescribed period;
- b. Inability to follow or adopt the BSP standard for asset classification and setting-up of the required valuation reserves;
- c. Any willful misrepresentation in the information/documents required under Sections 2 and 3; or
- d. The external auditor commits an act discreditable to the profession as specified in the Code of Professional Ethics for Certified Public Accountants.

It is understood that the above shall be the basis for delisting after the external auditor is given the opportunity to be heard by the Monetary Board. Delisted external auditor may re-apply for accreditation after the period of suspension imposed by the Monetary Board.

Section 6. SANCTIONS

The applicable sanctions/penalties prescribed under Sections 36 and 37 of Republic Act No. 7653 shall be imposed on the bank and the director(s) approving the hiring of external auditors who are not duly accredited by the BSP.

Section 7. EFFECTIVITY CLAUSE

This circular shall take effect fifteen (15) days following its publication in the Official Gazette and shall be applicable for audits to be conducted commencing the calendar/fiscal year 2000.

Section 8. REPEALING CLAUSE

This circular shall repeal BSP Circular No. 179 dated September 25, 1998.

FOR THE MONETARY BOARD:


ALBERTO V. REYES
Officer-in-Charge

19 May, 2000