



Bangko Sentral ng Pilipinas

MAYNILA, PILIPINAS

OFFICE OF THE GOVERNOR

Circular No. 660

Series of 2009

Subject: Reforms to the BSP's Policy on the Selection and Delisting of External Auditor and/or Auditing Firm of Covered Entities

Pursuant to Section 58 of The Republic Act No. 8791, otherwise known as "The General Banking Law of 2000", and the existing provisions of the executed Memorandum of Agreement (hereinafter referred to as the MOA) dated 12 August 2009, binding the Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC), Professional Regulation Commission - Board of Accountancy (BoA) and the Insurance Commission (IC) for a simplified and synchronized accreditation requirements for external auditor and/or auditing firm, the Monetary Board, in its Resolution No. 950 dated 2 July 2009, approved the following revised rules and regulations that shall govern the selection and delisting by the BSP of covered institution which under special laws are subject to BSP supervision:

SECTION 1. STATEMENT OF POLICY. It is the policy of the BSP to ensure effective audit and supervision of banks, quasi-banks, trust entities and/or Non-stock Savings and Loans Associations (NSSLAs), including their subsidiaries and affiliates engaged in allied activities and other financial institutions which under special laws are subject to BSP supervision, and to ensure the reliance by BSP and the public on the opinion of external auditors and auditing firms by prescribing the rules and regulations that shall govern the selection, appointment, reporting requirements and delisting for external auditors and auditing firms of said institutions, subject to the binding provisions of and implementing regulations pursuant to the aforesaid MOA.

SECTION 2. COVERED ENTITIES. The proposed amendment shall apply to the following supervised institution, as categorized below, and their external auditors:

Category A

- 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 dated 8 January 2008, regardless of classification, category and capital position

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Category B

- 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

- a. Rural Banks;
- b. NSSLAs;
- c. Local Cooperative Banks; and
- d. Pawnshops.

The above categories include their subsidiaries and affiliates engaged in allied activities and other financial institutions which are subject to BSP risk-based and consolidated supervision. Provided, that an external auditor who has been selected by the BSP to audit covered entities under Category A is automatically qualified to audit entities under Category B and C and if selected by the BSP to audit covered entities under Category B is automatically qualified to audit entities under Category C.

SECTION 3. DEFINITION OF TERMS. For purposes of this Circular, the following terms shall be defined as follows:

Audit - an examination of the financial statements of any issuer by an external auditor in compliance with the rules of the BSP or the Securities and Exchange Commission in accordance with then applicable generally accepted auditing and accounting principles and standards, for the purpose of expressing an opinion on such statements.

Non-audit services –any professional services provided to the covered institution by an external auditor, other than those provided to a covered institution in connection with an audit or a review of the financial statements of said covered institution.

Professional Standards - includes: (a) accounting principles that are (1) established by the standard setting body; and (2) relevant to audit reports for particular issuers, or dealt with in the quality control system of a particular registered public accounting firm; and (b) auditing standards, standards for attestation engagements, quality control policies and procedures, ethical and competency standards, and independence standards that the BSP or SEC determines (1) relate to the preparation or issuance of audit reports for issuers; and (2) are established or adopted by the BSP or promulgated as SEC rules.

Fraud - 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 5 percent. 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. Intentional misapplication of accounting policies; or
- vi. Omission of material information.

Error – an unintentional mistake in financial statements, which will reduce the consolidated total assets of the company by 5 percent. It may involve;

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

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

Material fact/information – any fact/information that could result in a change in the market price or value of any of the issuer's securities, or would potentially affect the investment decision of an investor.

Subsidiary – a corporation or firm more than 50 percent of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by a bank, quasi-bank, trust entity or NSSLA.

Affiliate – a corporation, not more than 50 percent but not less than 10 percent of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by a bank, quasi-bank, trust entity or NSSLA and a juridical person that is under common control with the bank, quasi-bank, trust entity or NSSLA.

Control – exists when the parent owns directly or indirectly more than one half of the voting power of an enterprise unless, in exceptional circumstance, it can be clearly demonstrated that such ownership does not constitute control. Control may also exist even when ownership is one half or less of the voting power of an enterprise when there is:

- a. Power over more than one half of the voting rights by virtue of an agreement with other stockholders;
- b. Power to govern the financial and operating policies of the enterprise under a statute or an agreement;
- c. Power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
- d. Power to cast the majority votes at meetings of the board of directors or equivalent governing body.

External auditor – means a single practitioner or a signing partner in an auditing firm.

Auditing firm – includes a proprietorship, partnership limited liability company, limited liability partnership, corporation (if any), or other legal entity, including any associated person of any of these entities, that is engaged in the practice of public accounting or preparing or issuing audit reports.

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.

Partner – all partners including those not performing audit engagements.

Lead partner – also referred to as 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.

Concurring partner – the partner who is responsible for reviewing the audit report.

Auditor-In-Charge – refers to the team leader of the audit engagement.

SECTION 4. GENERAL CONSIDERATION AND LIMITATIONS OF THE SELECTIONS PROCEDURES

- a. Subject to mutual recognition provision of the MOA and as implemented in this Circular, only external auditors and auditing firms included in the list of BSP selected external auditors and auditing firms shall be engaged by all the covered institutions detailed in Section 2 hereof. The external auditor and/or auditing firm to be hired shall also be in-charge of the audit of the entity's subsidiaries and affiliates engaged in allied activities: Provided, that the external auditor and/or auditing firm shall be changed or the lead and concurring partner shall be rotated every five years or earlier: Provided further, that the rotation of the lead and concurring partner shall have an interval of at least 2 years.
- b. Category A covered entities which have engaged their respective external auditors and/or auditing firm for a consecutive period of 5 years or more as of date of effectivity of this Circular shall have a one-year period from said date within which to either change their external auditors and/or auditing firm or to rotate the lead and/or concurring partner in compliance with the requirement of this Circular.

- c. The selection of external auditors and/or auditing firm does not exonerate the covered institution or said auditors from their responsibilities. Financial statements filed with the BSP are still primarily the responsibility of the management of the reporting institution and accordingly, the fairness of the representations made therein is an implicit and integral part of the institution's responsibility. The independent certified public accountant's responsibility for the financial statements required to be filed with the BSP is confined to the expression of his opinion, or lack thereof, on such statements which he has audited/examined.
- d. The BSP shall not be liable for any damage or loss that may arise from its selection of the external auditors and/or auditing firm to be engaged by banks, quasi-banks, trust entities or NSSLAs for regular audit or non-audit services.
- e. Pursuant to paragraph (5) of the MOA, SEC, BSP and IC shall mutually recognize the accreditation granted by any of them for external auditors and firms of Group C or D companies under SEC, Category B and C under BSP, and insurance brokers under IC. Once accredited/selected by any one of them, the above-mentioned special requirements shall no longer be prescribed by the other regulators.

For corporations which are required to submit financial statements to different regulators and are not covered by the mutual recognition policy of this MOA, the following guidance shall be observed:

- i. The external auditors of universal banks which are listed in the Exchange, should be selected/accredited by both the BSP and SEC, respectively; and
- ii. For insurance companies and banks that are not listed in the Exchange, their external auditors must each be selected/accredited by BSP or IC, respectively. For purposes of submission to the SEC, the financial statements shall be at least audited by an external auditor registered/accredited with BOA.

This mutual recognition policy shall however be subject to the BSP restriction that for banks and its subsidiary and affiliate bank, quasi-banks, trust entities, NSSLAs, their subsidiaries and affiliates engaged in allied activities and other financial institutions which under special laws are subject to BSP consolidated supervision, the individual and consolidated financial statements thereof shall be audited by only one external auditor/auditing firm.

- f. The selection of external auditors and/or auditing firm shall be valid for a period of three years. The Supervision and Examination Sector (SES) shall make an annual assessment of the performance of external auditors and/or auditing firm and will recommend deletion from the list even prior to

the three-year renewal period, if based on assessment, the external auditors' report did not comply with BSP requirements.

SECTION 5. QUALIFICATION REQUIREMENTS. The following qualification requirements are required to be met by the individual external auditor and the auditing firm at the time of application and on a continuing basis, subject to BSP's provisions on the delisting and suspension of accreditation:

5.1 – Individual External Auditor

A. General Requirements

- a. The individual applicant must be primarily accredited by the BOA. The individual external auditor or partner in-charge of the auditing firm must have had at least 5 years of audit experience.
- b. Auditor's Independence. In addition to the basic screening procedures of BOA on evaluating auditor's independence, the following are required for BSP purposes to be submitted in the form of notarized certification that:
 - b.1. No external auditor may be engaged by any of the covered institutions under Section 2 hereof if he or any member of his immediate family had or has committed to acquire any direct or indirect financial interest in the concerned covered institution, 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 and members of their immediate family;
 - b.2. The external auditor does not have/shall not have outstanding loans or any credit accommodations or arranged for the extension of credit or to renew an extension of credit (except credit card obligations which are normally available to other credit card holders and fully secured auto loans and housing loans which are not past due) with the covered institutions under Section 2 hereof at the time of signing the engagement and during the engagement. In the case of partnership, this prohibition shall apply to the partners and the auditor-in-charge of the engagement; and
 - b.3. It shall be unlawful for an external auditor to provide any audit service to a covered institution if the covered institution's CEO, CFO, Chief Accounting Officer (CAO), or comptroller was previously employed by the external auditor and participated in any capacity in the audit of the covered institution during the one-year preceding the date of the initiation of the audit;

- c. Individual applications as external auditor of entities under Categories A above must have established adequate quality assurance procedures, such consultation policies and stringent quality control, to ensure full compliance with the accounting and regulatory requirements.

B. Specific Requirements

- a. At the time of application, regardless of the covered institution, the external auditor shall have at least 5 years experience in external audits;
- b. The audit experience above refers to experience required as an associate, partner, lead partner, concurring partner or auditor-in-charge; and
- c. At the time of application, the applicant must have the following track record:
 - c.1. For Category A, he/she must have had at least 5 corporate clients with total assets of at least P50 million each;
 - c.2. For Category B, he/she must have had at least 3 corporate clients with total assets of at least P25 million each;
 - c.3. For Category C, he/she must have had at least 3 corporate clients with total assets of at least P5 million each;

5.2 – Auditing Firms

- a) The auditing firm must be primarily accredited by the BOA and the name of the firm's applicant partner's should appear in the attachment to the certificate of accreditation issued by BOA. Additional partners of the firm shall be furnished by BOA to the concerned regulatory agencies (e.g. BSP, SEC, and IC) as addendum to the firm's accreditation by BOA.
- b) Applicant firms to act as the external auditor of entities under Category A in Section 2 hereof must have established adequate quality assurance procedures, such consultation policies and stringent quality control, to ensure full compliance with the accounting and regulatory requirements.
- c) At the time of application, the applicant firm must have at least one signing practitioner or partner who is already selected/accredited, or who is already qualified and is applying for selection by BSP.
- d) A registered accounting/auditing firm may engage in any non-auditing service for an audit client only if such service is approved in advance by the client's audit committee. Exemptions from the prohibitions may be granted by the Monetary Board on a case-by-case basis to the extent that

such exemption is necessary or appropriate in the public interest. Such exemptions are subject to review by the BSP.

- e) At the time of application, the applicant firm must have the following track record:
 - e.1. For Category A, the applicant firm must have had at least 20 corporate clients with total assets of at least P50 million each;
 - e.2. For Category B, the applicant firm must have had at least 5 corporate clients with total assets of at least P20 million each;
 - e.3. For Category C, the applicant firm must have had at least 5 corporate clients with total assets of at least P5 million each

SECTION 6. APPLICATION FOR AND/OR RENEWAL OF THE SELECTION OF INDIVIDUAL EXTERNAL AUDITOR

6.1 The initial application for BSP selection shall be signed by the external auditor and shall be submitted to the appropriate supervising and examining department of the BSP together with the following documents/information:

- a. Copy of effective and valid BOA Certificate of Accreditation with the attached list of qualified partner/s of the firm;
- b. A notarized undertaking of the external auditor that he is in compliance with the qualification requirements under Section 5.1 of this Circular and that the external auditor shall keep an audit or review working papers for at least 7 years in sufficient detail to support the conclusions in the audit report and making them available to the BSP's authorized representative/s when required to do so;
- c. Copy of Audit Work Program which shall include assessment of the audited institution's compliance with BSP rules and regulations, such as, but not limited to the following:
 - a) Capital adequacy ratio, as currently prescribed by the BSP;
 - b) AMLA framework;
 - c) Risk Management System, particularly liquidity and Market risks; and
 - d) Loans and other risk assets review and classification, as currently prescribed by the BSP rules and regulations.
- d. If the applicant will have clients falling under Category A, copy of the Quality Assurance Manual which, aside from the basic elements as required under the BOA basic quality assurance policies and procedures, specialized quality assurance procedures should be

provided consisting of, among others, review asset quality, adequacy of risk-based capital, risk management systems and corporate governance framework of the covered entities.

- e. Copy of the latest audited financial statements (AFS) of the applicant's 2 largest clients in terms of total assets.

6.2 Subject to BSP's provision on early deletion from the list of selected external auditor, the selection may be renewed within 2 months before the expiration of the 3-year effectivity of the selection upon submission of the written application for renewal to the appropriate supervising and examining department of BSP together with the following documents/information:

- i. Copy of updated BOA Certificate of Accreditation with the attached list of qualified partner/s of the firm;
- ii. Notarized certification of the external auditor that he still possess all qualification required under Section 6.1 (b) of this Circular;
- iii. List of corporate clients audited during the 3-year period of being selected as external auditor by BSP. Such list shall likewise indicate the findings noted by the BSP and other regulatory agencies on said AFS including the action thereon by the external auditor; and
- iv. Written proof that the auditor has attended or participated in trainings for at least 30 hours in addition to the BOA's prescribed training hours. Such training shall be in subjects like international financial reporting standards, international standards of auditing, corporate governance, taxation, code of ethics, regulatory requirements of SEC, IC and BSP or other government agencies, and other topics relevant to his practice, conducted by any professional organization or association duly recognized/accredited by the BSP, SEC or by the BOA/PRC through a CPE Council which they may set up.

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

SECTION 7. APPLICATION FOR AND/OR RENEWAL OF THE SELECTION OF AUDITING FIRMS

7.1 The initial application shall be signed by the managing partner of the auditing firm and shall be submitted to the appropriate supervising and examining department together with the following documents/information:

- i. Copy of effective and valid BOA Certificate of Accreditation with attachment listing the names of qualified partners;

- ii. Notarized certification that the firm is in compliance with the general qualification requirements under Section 5.2 of this Circular and that the firm shall keep an audit or review working papers for at least 7 years insufficient detail to support the conclusions in the audit report and making them available to the BSP's authorized representative/s when required to do so;
 - iii. Copy of audit work program which shall include assessment of the audited institution's compliance with BSP rules and regulations, such as, but not limited to the following:
 - a) Capital adequacy ratio, as currently prescribed by the BSP ;
 - b) AMLA framework;
 - c) Risk Management System, particularly liquidity and Market risks; and
 - d) Loans and other risk assets review and classification, as currently prescribed by the BSP rules and regulations.
 - iv. If the applicant firm will have clients falling under Category A, copy Quality Assurance Manual where, aside from the basic elements as required under the BOA basic quality assurance policies and procedures, specialized quality assurance procedures should be provided relative to, among others, review asset quality, adequacy of risk-based capital, risk management systems and corporate governance framework of covered entities;
 - v. Copy of the latest audited financial statements (AFS) of the applicant's 2 largest clients in terms of total assets; and
 - vi. Copy of firm's audited financial statements for the immediately preceding 2 years.
- 7.2 Subject to BSP's provision on early deletion from the list of selected auditing firm, the selection may be renewed within two (2) months before the expiration of the 3-year effectivity of the selection upon submission of the written application for renewal to the appropriate supervising and examining department of BSP together with the following documents/information:
- i. A copy of updated BOA Certificate of Registration with the attached list of qualified partner/s of the firm;
 - ii. Amendments on Quality Assurance Manual, inclusive of written explanation on such revision, if any; and
 - iii. Notarized certification that the firm is in compliance with the general qualification requirements under Section 7.1, item ii hereof;

The application for initial or renewal accreditation of an auditing firm shall be accompanied by a fee of Five Thousand Pesos (P5,000.00).

SECTION 8. REPORTORIAL REQUIREMENTS

- a. To enable the BSP to take timely and appropriate remedial action, the external auditor and/or auditing firm must report to the BSP within 30 calendar days after discovery, the following cases:
 - i. Any material finding involving fraud or dishonesty (including cases that were resolved during the period of audit);
 - ii. Any potential losses the aggregate of which amounts to at least 1 percent of the capital;
 - iii. 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; and
 - iv. Material internal control weaknesses which may lead to financial reporting problems.
- b. The external auditor/auditing firm shall report directly to the BSP within 15 calendar days from the occurrence of the following:
 - i. Termination or resignation as external auditor and stating the reason therefor;
 - ii. Discovery of a material breach of laws or BSP rules and regulations such as, but not limited to:
 - a. Capital adequacy ratio; and
 - b. Loans and other risk assets review and classification.
 - iii. Findings on matters of corporate governance that may require urgent action by the BSP.
- c. In case there are no matters to report (e.g. fraud, dishonesty, breach of laws, etc.) the external auditor/auditing firm shall submit directly to BSP within 15 calendar days after the closing of the audit engagement a notarized certification that there is none to report.

The management of the covered institutions, including its subsidiaries and affiliates, shall be informed of the adverse findings and the report of the external auditor/auditing firm to the BSP shall include pertinent explanation and/or corrective action.

The management of the covered institutions, including its subsidiaries and affiliates, shall be given the opportunity to be present in the discussions between the BSP and the external auditor/auditing firm regarding the audit findings, except in circumstances where the external auditor believes that the entity's management is involved in fraudulent conduct.

It is, however, understood that the accountability of an external auditor/auditing firm is based on matters within the normal coverage of an audit conducted in accordance with generally accepted auditing standards and identified non-audit services provided herewith.

SECTION 9. DELISTING AND SUSPENSION OF SELECTED EXTERNAL AUDITOR/AUDITING FIRM.

9.1 An external auditor's duly selected pursuant to this Circular shall be suspended or delisted, in a manner provided under this Circular, under any of the following grounds

- a) Failure to submit the report under Section 8 of this Circular or the required reports under Subsection X166.1 of the Manual of Regulations for Banks (MORB) and/or Sections 4172Q, 4172S and 4172N of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI), as amended;
- b) Continuous conduct of audit despite loss of independence as provided under Section 5.1 hereof or contrary to the requirements under the Code of Professional Ethics;
- c) Any willful misrepresentation in the following information/documents;
 - i. Application and renewal for accreditation;
 - ii. Report required under Section 8 of this Circular; and
 - iii. Notarized certification of the external auditor and/or auditing firm in compliance with the provision/s of this Circular.
- d) The Board of Accountancy found that, after due notice and hearing, the external auditor committed an act discreditable to the profession as specified in the Code of Professional Ethics for Certified Public Accountants. In this case, the BOA shall inform the BSP of the results thereof;
- e) Declaration of conviction by a competent court of a crime involving moral turpitude, fraud (as defined in the Revised Penal Code), or declaration of liability for violation of the banking laws, rules and regulation, the Corporation Code of the Philippines, the Securities Regulation Code; and the rules and regulations of concerned regulatory authorities;
- f) Refusal for no valid reason, upon lawful order of the BSP, to submit the requested documents in connection with an ongoing investigation. The external auditor should however been made aware of such investigation;
- g) Gross negligence in the conduct of audits which would result, among others, in non-compliance with generally accepted auditing standards in the Philippines or issuance of an unqualified opinion which is not

supported with full compliance by the auditee with generally accepted accounting principles in the Philippines (GAAP). Such negligence shall be determined by the BSP after proper investigation during which the external auditor shall be given due notice and hearing;

- h) Conduct of any of the non-audit services enumerated under Section 5.1 of this Circular for his statutory audit clients, if he has not undertaken the safeguards to reduce the threat to his independence; and
- i) Failure to comply with the Philippine Auditing Standards and Philippine Auditing Practice Statements.

9.2 An auditing firm's accreditation shall be suspended or delisted, after due notice and hearing, for the following grounds:

- a) Failure to submit the report under Section 8 of this Circular or the required reports under Subsection X166.1 of the Manual of Regulations for Banks (MORB) and/or Sections 4172Q, 4172S and 4172N of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI), as amended;
- b) Continuous conduct of audit despite loss of independence of the firm as provided under this Circular and under the Code of Professional Ethics;
- c) Any willful misrepresentation in the following information/documents;
 - i. Application and renewal for accreditation;
 - ii. Report required under Section 8 of this Circular; and
 - iii. Notarized certification of the managing partner of the firm in compliance with the provision/s of this Circular.
- d) Dissolution of the auditing firm/partnership, as evidenced by an Affidavit of Dissolution submitted to the Board of Accountancy, or upon findings by the BSP that the firm/partnership is dissolved. The accreditation of such firm/partnership shall however be reinstated by the BSP upon showing that the said dissolution was solely for the purpose of admitting new partner/s and the new partner/s have complied with the requirements of this Circular and thereafter shall be reorganized and re-registered;
- e) There is a showing that the accreditation of the following number or percentage of external auditors, whichever is lesser, have been suspended or delisted for whatever reason, by the BSP:
 - i. at least 10 signing partners and currently employed selected/accredited external auditors, taken together; or

- ii. such number of external auditors constituting 50 percent or more of the total number of the firm's signing partners and currently selected/accredited auditors, taken together.
 - f) The firm or any one of its auditors has been involved in a major accounting/auditing scam or scandal. The suspension or delisting of the said firm shall depend on the gravity of the offense or the impact of said scam or scandal on the investing public or the securities market, as may be determined by the BSP;
 - g) The firm has failed reasonably to supervise an associated person and employed auditor, relating to the following:
 - i. auditing or quality control standards, or otherwise, with a view to preventing violations of this Circular;
 - ii. provisions other Securities Regulation Code relating to preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto;
 - iii. the rules of the BSP under this Circular; or
 - iv. professional standards.
 - h) Refusal for no valid reason, upon order of the BSP, to submit requested documents in connection with an ongoing investigation. The firm should however be made aware of such investigation.
- 9.3 Pursuant to paragraph 8 of the aforesaid MOA, the SEC, BSP, and IC shall *inform BOA of any violation by an accredited/selected external auditor which may affect his/her accreditation status as a public practitioner.* The imposition of sanction by BOA on an erring practitioner shall be without prejudice to the appropriate penalty that the SEC, IC or BSP may assess or impose on such external auditor pursuant to their respective rules and regulations. In case of revocation of accreditation of a public practitioner by BOA, the accreditation by SEC, BSP and IC shall likewise be automatically revoked/derecognized.

The SEC, BSP and IC shall inform each other of any violation committed by an external auditor who is accredited/selected by any one or all of them. Each agency shall undertake to respond on any referral or endorsement by another agency within 10 working days from receipt thereof

9.4. Procedure and Effects of Delisting/Suspension.

- a) An external auditor/auditing firm shall only be delisted upon prior notice to him/it and after giving him/it the opportunity to be heard and defend himself/itself by presenting witnesses/evidence in his favor. Delisted external auditor and/or auditing firm may re-apply for BSP selection after the period prescribed by the Monetary Board.
- b) BSP shall keep a record of its proceeding/investigation. Said proceedings/investigation shall not be public, unless otherwise ordered by

the Monetary Board for good cause shown, with the consent of the parties to such proceedings.

- c) A determination of the Monetary Board to impose a suspension or delisting under this section shall be supported by a clear statement setting forth the following:
 - i. Each act or practice in which the selected/accredited external auditor or auditing firm, or associated entity, if applicable, has engaged or omitted to engage, or that forms a basis for all or part of such suspension/delisting;
 - ii. The specific provision/s of this Circular, the related SEC rules or professional standards which the Monetary Board determined as has been violated; and
 - iii. The imposed suspension or delisting, including a justification for either sanction and the period and other requirements specially required within which the delisted auditing firm or external auditor may apply for re-accreditation
- d) The suspension/delisting, including the sanctions/penalties provided in Section 13 of this Circular shall only apply to:
 - i. Intentional or knowing conduct, including reckless conduct, that results in violation of applicable statutory, regulatory or professional standards; or
 - ii. Repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory or professional standards
- e) No associate person or employed auditor of a selected/accredited auditing firm shall be deemed to have failed reasonably to supervise any other person for purpose of Item 9.2 (g) above, if:
 - i. There have been established in and for that firm procedures, and a system for applying such procedures, that comply with applicable rules of BSP and that would reasonably be expected to prevent and detect any such violation by such associated person; and
 - ii. Such person or auditor has reasonably discharged the duties and obligations incumbent upon that person by reason of such procedures and system, and had no reasonable cause to believe that such procedures and system were not being complied with.
- f) The BSP shall discipline any selected external auditor that is suspended or delisted from being associated with any selected auditing firm, or for any selected auditing firm that knew, or, in the exercise of reasonable care should have known, of the suspension or delisting of any selected external auditor, to permit such association, without the consent of the Monetary Board.

- g) The BSP shall discipline any covered institution that knew, or in the exercise of reasonable care should have known, of the suspension or delisting of its external auditor or auditing firm, without the consent of the Monetary Board.
- h) The BSP shall establish for appropriate cases an expedited procedure for consideration and determination of the question of the duration of stay of any such disciplinary action pending review of any disciplinary action of the BSP under this Section.

SECTION 10. SPECIFIC REVIEW. When warranted by supervisory concern, the Monetary Board may, at the expense of the covered institution require the external auditor and/or auditing firm to undertake a specific review of a particular aspect of the operations of these institutions. The report shall be submitted to the BSP and the audited institution simultaneously, within 30 calendar days after the conclusion of said review.

SECTION 11. AUDIT BY THE BOARD OF DIRECTORS. Pursuant to Section 58 of R.A. No. 8791, otherwise known as "The General Banking Law of 2000" the Monetary Board may also direct the board of directors of a covered institution or the individual members thereof, to conduct, either personally or by a committee created by the board, an annual balance sheet audit of the covered institution to review the internal audit and the internal control system of the concerned entity and to submit a report of such audit to the Monetary Board within 30 calendar days after the conclusion thereof.

SECTION 12. AUDIT ENGAGEMENT. Covered institutions shall submit the audit engagement contract between them, their subsidiaries and affiliates and the external auditor/auditing firm to the appropriate supervising and examining department of the BSP within 15 calendar days from signing thereof. Said contract shall include the following provisions:

- a. That the covered institution shall be responsible for keeping the auditor fully informed of existing and subsequent changes to prudential, regulatory and statutory requirements of the BSP and that both parties shall comply with said requirements;
- b. That disclosure of information by the external auditor/auditing firm to the BSP as required under Sections 7 and 8 hereof, shall be allowed; and
- c. That both parties shall comply with all of the requirements under this Circular.

SECTION 13. SANCTIONS. The applicable sanctions/penalties prescribed under Sections 36 and 37 of Republic Act No. 7653 to the extent applicable shall be imposed on the covered institution, its audit committee and the directors approving the hiring of external auditors/auditing firm who/which are not in the BSP list of selected auditors for covered institution or for hiring, and/or retaining the services of the external auditor/auditing firm in violation of

any of the provisions of this Circular and for non-compliance with the Monetary Board directive under Section 11 above. Erring external auditors/auditing firm may also be reported by the BSP to the PRC for appropriate disciplinary action.

SECTION 14. REPEALING CLAUSE. This Circular supersedes/repeals BSP Circular No. 410 dated 29 October 2003, as amended by Circular Nos. 455 and 529 dated 29 September 2004 and 11 May 2006, respectively, and other existing circulars, memoranda and/or regulations that are inconsistent herewith.

SECTION 15. EFFECTIVITY. This Circular shall take effect after 15 days following its publication either in the Official Gazette or in any newspaper of general circulation.

FOR THE MONETARY BOARD


AMANDO M. TETANGCO, JR.
Governor

25 August 2009