Republic of the Philippines
Department of Trade and Industry
Securities and Exchange Commission
SEC Bldg. EDSA, Greenhills, Mandaluyong City

SEC Memorandum Circular No. 13
Series of 2009

REVISED GUIDELINES ON ACCREDITATION OF AUDITING FIRMS AND EXTERNAL AUDITORS

SEC. 1. Policy Statement

Pursuant to its powers under the Securities Regulation Code and Corporation Code of the Philippines, the Commission resolved to adopt the following guidelines in the accreditation of external auditors and the preparation of their reports. The qualification standards and reporting obligations of external auditors of companies subject of this Circular are aimed at promoting quality control and discipline in the financial environment.

This Circular also includes the mutual recognition policy and simplified process for accreditation of external auditors agreed upon by the Commission, Board of Accountancy (BOA), Bangko Sentral ng Pilipinas (BSP), and Insurance Commission (IC), pursuant to their Memorandum of Agreement dated 12 August 2009.

SEC. 2. Coverage

2.1 This Circular shall apply to the following companies, as grouped below, and their external auditors:

Group A

i. Issuers of registered securities which have sold a class of securities pursuant to a registration under Section 12 of the Securities Regulation Code (SRC) except those issuers of registered timeshares, proprietary and non-proprietary membership certificates which are covered in Group B;

ii. Issuers with a class of securities listed for trading in an Exchange;

iii. Public companies or 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.

Group B

i. Pre-need Companies;
ii. Issuers of registered timeshares, proprietary and non-proprietary membership certificates;
iii. Investment Houses;
iv. Brokers and Dealers of securities;
v. Investment companies;
vi. Government Securities Eligible Dealers (GSEDs);
vii. Universal Banks Registered as Underwriters of Securities;
viii. Investment Company Advisers;
ix. Clearing Agency and Clearing Agency as Depository;
x. Stock and Securities Exchange/s;
xi. Special Purpose Vehicles registered under the Special Purpose Vehicle Act of 2002 and its implementing rules;
xii. Special Purpose Corporations registered under the Securitization Act of 2004 and its implementing rules;
xiii. Such other corporations which may be required by law to be supervised by the Commission.

Group C

i. Financing Companies;
ii. Lending Companies;
iii. Transfer Agents.

Group D

Registered corporations which are mandated by other regulatory agencies to have an external auditor accredited by the Commission, provided however that the Commission has been consulted on such requirement by the said agency and that it has agreed on the terms thereof through a Memorandum of Agreement duly executed between the Commission and the regulatory agency.

2.2 For Group D, the application of this Circular shall be limited to the qualification and documentary requirements for the accreditation of external auditors. The monitoring of compliance with reportorial obligations and post accreditation requirements of such external auditors shall be the primary responsibility of the regulatory agency that recognizes the Commission's accreditation requirements and procedures.

SEC. 3. Definition of Terms

3.1 **Commission** means the Securities and Exchange Commission.

3.2 **External Auditor** means a Certified Public Accountant (CPA) in public practice as a single practitioner or signing partner in an auditing firm.

3.3 **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 reduces 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 transactions from records or documents;
iv. Recording of transactions without substance;
v. Intentional misapplication of accounting policies; or
vi. Omission of material information.

3.4 **Error** means an unintentional mistake in the financial statements which reduces 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; or
iii. Unintentional 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.

3.6 **Material information** means information whose omission or misstatement could influence the economic decisions of its users.

3.6 **Pre-need company or issuer** means any corporation registered with the Commission that is authorized or licensed to issue pre-need plans.

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 the statutory audit of their financial statements.

4.2 The external auditors and auditing firms (if applicable) of companies under Groups A and B should both be accredited by the Commission in accordance with this Circular.

4.3 For companies under Group C, the accreditation of the auditing firm shall be sufficient. However, an individual practitioner should be accredited by the Commission as such.

4.4 The accreditation of external auditors does not relieve the reporting company or the said auditors from their responsibilities. Financial statements filed with the Commission shall be the primary responsibility of the reporting company; hence, the fairness of the representations made therein is the company's responsibility. The external auditor's responsibility for the financial statements required to be filed with the Commission shall be confined to the expression of his opinion, or lack thereof, on such statements which he has examined.

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

4.6 The accreditation of an external auditor and/or auditing firm shall expire or be automatically delisted after three (3) years from the date of approval of the accreditation, unless an application for its renewal is filed not later than thirty (30) business before its expiration;

4.7 Accreditation under Group A shall be considered a general accreditation which shall allow the external auditor to also audit companies under Groups B, C and D. External auditors with Group B accreditation can likewise audit companies under Groups C and D. Accordingly, Group C accredited external auditors are allowed to audit Group D companies.

SEC. 5. Qualification Requirements

5.1 Individual External Auditors or Partners

A. General requirements applicable to all applications for accreditation

i. He/she should be accredited with the Board of Accountancy (BOA);

ii. At the time of application, the applicant should have at least five (5) years experience in external audit. The audit experience should have been acquired as an in-charge, manager or partner or its equivalent;

iii. The applicant should have adequate policies and procedures related to the elements of a system of quality control provided for under Philippine Standard on Auditing No. 220, Philippine Standard on Quality Control No. 1 and their amendments. These should be reflected in his/her Quality Assurance Manual as required by Section 6.1 of this Circular.

B. Specific Requirements

i. The applicant should have sufficient knowledge on the regulatory requirements, operations and functions of companies under Group A, B or C for which he/she is applying for accreditation;

ii. He/she should have a total of 60 units of trainings and seminars on the following topics within the last 3 years: 15 units on Philippine Financial Reporting Standards, 15 units on Philippine Standards on Auditing, 18 units on Taxation, 8 units on Professional Ethics, and 4 units on relevant laws and recent issues affecting business or other areas relevant to the practice of accountancy. The said trainings should have been approved by the Professional Regulation Commission CPE Council or the Commission. For renewal applications, the required CPE units shall be 90 units for the last 3 years. The additional units shall be on topics relevant to the companies under the category which the auditor is accredited, e.g., Securities Regulation Code, Financing Company Act.

iii.. At the time of application, the applicant should have the following track record:

1. For Group A applicant, he/she should have had a minimum of five (5) corporate clients with total assets of at least ₱50 million each;

2. For Group B, the applicant should have had a minimum of three (3) corporate clients with total assets of at least ₱20 million each;

3. For Group C, the applicant should have had a minimum of three (3) corporate clients with total assets of ₱5 million each;

4. For Group D, the applicant should have had a minimum of one (1) corporate client with total assets of at least Five Million Pesos (P5,000,000.00), or a minimum of five (5) clients regardless of the amount of the total assets.

5.2 Auditing Firms

i. The auditing firm should be accredited with the BOA;

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

iii. It should have adequate policies and procedures related to the elements of a system of quality control provided for under Philippine Standard on Auditing No. 220, Philippine Standard on Quality Control No. 1 and their amendments. These should be reflected in its Quality Assurance Manual as required by Section 7.1 of this Circular.

SEC. 6. Application by Individual External Auditors or Partners

6.1 For the initial accreditation, a duly accomplished and notarized application form (SEC Form ExA-001) shall be submitted by the applicant to the Commission, together with the following documents:

i. Copy of the Certificate of Registration as a public practitioner issued by the /Professional Regulation Commission's (PRC) Board of Accountancy;

ii. Proof of audit experience, such as, list of corporate clients showing the engagement period and the amount of their respective total assets.

iii. If the applicant is a sole practitioner, Quality Assurance Manual containing adequate audit procedures that will ensure full compliance with accounting and regulatory requirements and a written 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 for under Philippine Standard on Auditing No. 220, Philippine Standards on Quality Control 1, and their amendments, or as may be required by the Commission.

For Groups A or B, high quality assurance (QA) procedures within the audit firm are expected in order that matters like proper consultation policies, concurring reviews and independence monitoring are in place. Single practitioners are not likely to be recommended for Group A or B since such QA procedures would not be in place.

iv. Copy of the audited financial statements (AFS) of the applicant's two (2) largest clients in terms of total assets. In evaluating the quality of audit work of the applicant which is one of the considerations for the denial or approval of his/her application for accreditation, the Commission shall be guided by Annex "A" of this Circular;

v. In the case of an application for Group A or B accreditation, notarized certification that the applicant has fundamental knowledge of the regulatory requirements on each of the other secondary licensees of the Commission;

vi. Copy of certificates of participation in trainings and seminars as prescribed under Section 5.1(B)(ii).

6.2 The accreditation may be renewed by filing a duly accomplished renewal application form (SEC Form ExA-001-R) with the following documents:

i. Copy of Certificate of Registration as a public practitioner issued by BOA/PRC which should be current and effective;

ii. Copy of previous Certificate of Accreditation;

iii. Copy of certificates of participation in trainings and seminars as prescribed under Section 5.1(B)(ii);

iv. In case there are changes in any of the documents submitted in the initial application for accreditation, the amended or updated document should be submitted;

v. Copy of the AFS of the applicant's two (2) largest clients in terms of total assets. In evaluating the quality of audit work of the applicant which is one of the considerations for the denial or approval of his/her renewal application, the Commission shall be guided by Annex "A" of this Circular.

6.3 . Applications for initial or renewal of accreditation of external auditors or partners of auditing firms shall be assessed the following filing fees:

i. Group A	P5,000.00
ii. Group B	3,000.00
iii. Group C or D	2,000.00

SEC. 7. Application for Accreditation by Auditing Firms

7.1 For initial accreditation, a duly accomplished and notarized application form (SEC Form AuF-002) 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 the Certificate of Registration as a public practitioner issued by BOA/PRC to the firm which is current and effective. It should include a copy of the list issued by PRC/BOA which indicates the names of the qualified partner/s of the firm;

ii. Quality Assurance Manual containing adequate audit procedures that will ensure full compliance with accounting and regulatory requirements and a written 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 for under Philippine Standard on Auditing No. 220, Philippine Standards on Quality Control 1, and their amendments, or as may be required by the Commission.

7.2 The accreditation may be renewed by filing a duly accomplished renewal application form (SEC Form AuF-002-R) with the following documents:

i. A certified true copy of the Certificate of Registration with BOA/PRC which is valid and effective;

ii. Copy of previous Certificate of Accreditation;

iii. In case there are changes in any of the documents submitted in the initial application for accreditation, the amended or updated document should be submitted.

7.3 Applications for initial or renewal of accreditation of auditing firms shall be assessed the following fees:

i.	Group A:	P20,000.00
ii.	Group B:	15,000.00
iii.	Group C or D:	5,000.00

SEC. 8. Mutual Recognition

8.1. Subject to compliance with the requirements of the Commission under paragraph 8.2 of this Circular, the accreditation granted by the Bangko Sentral ng Pilipinas (BSP) and Insurance Commission (IC) on the external auditors of the following entities shall be recognized by the Commission for companies under Groups C and D, as stated in this Circular:

i. Rural or thrift banks regulated by the BSP;
ii. Insurance brokers regulated by the IC.

To be able to avail of above-stated recognition, the applicant should submit a copy of the certificate of accreditation issued by the BSP or IC.

8.2. For external auditors applying for Group C or D accreditation who are already accredited by the BSP for rural or thrift banks or the IC for insurance brokers, only the following documents should be presented:

i. Duly accomplished application signed under oath;

ii. Certificate of accreditation issued either by the BSP or IC covering the said entities;

iii. For Group C, proof that the applicant has had a minimum of three (3) corporate clients with total assets of ₱5 million each. For Group D, no corporate profile shall be required;

iv. Certification that the applicant has sufficient knowledge on the operations and functions of specific companies for which he/she is applying for accreditation; and

v. Copy of the latest AFS of the applicant's top two (2) clients, which comply with the requirements provided for in Annex "A" of this Circular.

8.3. The instant mutual recognition policy is subject to the BSP restriction that for banks and their subsidiary and affiliate banks; quasi-banks; trust entities; non-stock savings and loan associations (NSSLAs) and their subsidiaries and affiliates engaged in allied activities; and other financial institutions which, under special laws, are subject to the BSP's consolidated supervision, only one (1) external auditor or auditing firm shall audit their individual and consolidated financial statements.

8.4. For corporations which are required to submit financial statements to different regulators and are not covered by the mutual recognition policy, the following guidelines shall be observed:

i. The external auditors of universal banks listed in an Exchange shall comply with the common and special accreditation requirements of the BSP and the Commission;

ii. For insurance companies and banks that are not listed in the Exchange, their external auditors shall comply with the common and special accreditation requirements of the IC or BSP, respectively. For purposes of submissions to the Commission, the financial statements shall be at least audited by an external auditor registered with BOA.

SEC. 9. Operational Requirements

9.1. An accredited auditing firm or external auditor shall not engage in any of the following non-audit services for his statutory audit clients, unless the safeguards under the Code of Ethics for CPA's are undertaken by the firm or auditor to reduce the threat to its independence:

i. bookkeeping or other services related to the accounting records or financial statements of the audit client;

ii. financial information systems design and implementation;

iii. appraisal or valuation services, fairness opinions, or contribution-in-kind reports;

iv. actuarial services;

v. internal audit outsourcing services;

vi. management functions or human resources;

vii. broker or dealer, investment adviser, or investment banking services;

viii. legal services and other professional services unrelated to the audit; and

ix. any other services that the Commission may declare as not permissible.

9.2. The firm and/or external auditor shall comply with the following:

i. Terms of its engagement letter and its undertakings;

ii. Philippine Standards on Auditing and Practices and other issuances of the Auditing and Assurance Standards Council and/or the Commission;

iii. Code of Professional Ethics which includes independence rules;

iv. Applicable provisions of SRC Rule 68 and 68.1, and other relevant regulations and circulars of the Commission; and

v. Other pertinent laws, rules and regulations.

9.3. The written procedure for quality assurance and monitoring of professional ethics and independence from clients which shall be submitted with the application for accreditation shall be complied with. Any change or amendment thereto shall be reported to the Commission not less than ten (10) business prior to its effectivity. If the Commission does not comment or object to the changes or amendment within ninety (90) business from the date of submission, the change or amendment shall be considered duly noted and shall form part of the records of such accredited firm on file with the Commission.

9.4 The Commission shall exercise visitorial power over the accredited firms and external auditors, as it may deem necessary.

9.5. The external auditor shall adopt and implement the following communication processes as part of its operational requirements:

i. <u>Critical Accounting Policies and Practices</u>

The external auditor shall communicate to the audit committee or its equivalent or those charged with governance all critical accounting policies and practices. Critical accounting policies are those that are important to the portrayal of the company's financial condition and performance, and require difficult, subjective or complex judgments by management, as a result of the need to make estimates about the effect of matters that are inherently uncertain. Prior to finalizing and filing annual reports, audit committees should review the selection, application and disclosure of critical accounting policies. Consistent with auditing standards, audit committees shall be apprised of the evaluative criteria used by management in its selection of accounting principles and methods. Proactive discussions between the audit committee and the company's senior management and auditor about critical accounting policies shall be necessary.

ii. Alternative Accounting Treatments

a) External auditors shall provide audit committees with information on material accounting alternatives. This will minimize the risk that audit committee members will be distracted from material accounting policy matters by numerous discussions between the auditors and management on the application of accounting principles to relatively small transactions or events. The external auditor shall communicate, orally or in writing, to the audit committee all alternative treatments within the applicable financial reporting framework for policies and practices related to material items that have been discussed with management, including the ramifications of the use of such alternative treatments and disclosures and the treatment preferred by the accounting firm. This rule is intended to cover recognition, measurement, and disclosure considerations related to the accounting for specific transactions, as well as general accounting policies.

b) Communications regarding specific transactions shall identify, at a minimum, the underlying facts, financial statement accounts impacted, and applicability of existing corporate accounting policies to the transaction. In addition, if the accounting treatment proposed does not comply with existing corporate accounting policies, or if an existing corporate accounting policy is not applicable, an explanation of why the existing policy is not appropriate or applicable and the basis for the selection of the alternative policy should be discussed. Regardless of whether the accounting policy selected preexists or is new, the entire range of alternatives available under applicable financial reporting framework that were discussed by management and the auditor shall be communicated along with the reasons for not selecting those alternatives. If the accounting treatment selected is not, in the auditor's view, the preferred method, the reasons why the auditor's preferred method was not selected by management and the possible impact of such method on the auditor's report should be stated.

c) Communications regarding general accounting policies shall focus on the initial selection of and changes in significant accounting policies, as required by auditing standards and practices, and should include the impact of management's judgments and accounting estimates, as well as the auditor's judgments about the quality of the entity's accounting principles. The discussion of general accounting policies should include the range of alternatives available under applicable financial reporting framework that were discussed by management and the auditor along with the reasons for selecting the chosen policy. If an existing accounting policy is being modified, the reasons for the change should also be communicated. If the accounting policy selected is not the auditor's preferred policy, the discussions should include the reasons why the auditor considered one policy to be preferred but that policy was not selected by management.

d) The separate discussion of critical accounting policies and practices is not a substitute for communications regarding general accounting policies since the discussion about critical accounting policies and practices may not encompass any new or changed general accounting policies and practices. Likewise, this discussion of general accounting policies and practices is not intended to dilute the communications related to critical accounting policies and practices since the issues affecting critical accounting policies and practices such as, sensitivities of assumptions and others may be tailored specifically to events in the current year, and the selection of general accounting policies and practices should consider a broad range of transactions over time.

iii. Other Material Written Communications

Written communications between auditors and management shall range from formal documents, such as, engagement letters, to informal correspondence, such as, administrative items, which shall include, but not limited to the following:

- Reports on observations and recommendations on internal controls;
- Schedule of unadjusted audit differences, and a listing of adjustments and reclassifications not recorded, if any;
- Engagement letter; and
- Independence letter.

The management of the registrant shall furnish the audit committee with a copy of the management representation letter addressed to the external auditor.

iv. Timing of Communications

The communications between the auditor and the audit committee shall be made prior to the filing of the audit report with the Commission pursuant to applicable securities laws. These discussions may be done, at a minimum, during the annual audit, but may be as frequent as quarterly or more often on real-time basis.

SEC. 10. Reportorial Requirements

10.1. A company covered by this Circular shall report to the Commission its action on a report of its external auditor pertaining to any item enumerated under Section 10.3 hereof within five (5) business from the said report. For companies under Group A, the disclosure shall be in the form of a current report (SEC Form 17-C). For companies under Groups B to C, the report shall be in the form of a letter duly signed by the Chairman of the Board or Chairman of the Audit Committee. For companies under Group D, the disclosure shall be submitted to the concerned regulatory agency, copy furnished the Commission's Office of the General Accountant.

10.2 In case the client-company fails to comply with the reportorial requirement under Section 10.1 above, the external auditor shall, within thirty (30) business days from the submission of his findings to the client-company, file a report (SEC Form Au-Rep) to the Commission.

10.3 The following findings shall be disclosed:

i. Any material findings involving fraud or error, as defined under Sections 3.3 and 3.4;

ii. Losses or potential losses the aggregate of which amounts to at least ten percent (10%) of the consolidated total assets of the company;

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;

iv. Material internal control weaknesses which may lead to financial reporting problems.

10.4 The external auditor shall submit its findings to the client-company's audit committee or those charged with its governance. The adverse findings shall be discussed by the external auditor with the said body in order to preserve the concerns of the supervisory authority and external auditors regarding the confidentiality of the information.

10.5 The external auditor shall document management's explanation and/or corrective action taken regarding his adverse findings. The same shall be included in the report mentioned under Section 10.1 above.

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

SEC. 11. Grounds for Imposition of Penalties

An external auditor or auditing firm shall be assessed a penalty under Section 12 hereof, after due notice and hearing by the Commission, for any of the following violations:

i. Failure to submit the report required under Section 10 of this Circular;

ii. Any material misrepresentation in the following information or documents:

  a. Application for accreditation;
  b. Certifications submitted with the application;
  c. Report required under Section 10 of this Circular;

iii. Refusal for no valid reason, upon lawful order of the Commission, to submit requested documents in connection with an ongoing investigation. The external auditor should, however, been made aware of such investigation.

iv. Gross negligence in the conduct of the audit or failure to comply with any of the Philippine Auditing Standards and Practices and such other issuances of the ASPC and the Commission;

v. Issuance of an unqualified opinion which is not supported by full compliance by the auditee with the applicable financial reporting framework due to a material deficiency or misstatement in the financial statements. The test of materiality shall be governed by SEC Memorandum Circular No. 8, Series of 2009, or any of its amendments;

vi. Conduct of an audit despite the lack or eventual loss of independence as provided for under the Code of Professional Ethics for CPAs;

vii. Conduct of any of the non-audit services enumerated under Section 9.1 of this Circular for his statutory audit clients, if he has not undertaken the safeguards to reduce the threat to his independence;

ix. Failure to obtain from the Commission an accreditation appropriate to company-client's category under this Circular prior to engagement.

SEC. 12. Scale of Fines

12.1 **Violation of Reportorial and Representation Obligations**. Any auditing firm or responsible external auditor (individual practitioner) who commits any of the violations stated in subparagraphs (i) to (iii) of Section 11 above shall be subject to the following fines:

Group A

	Auditing Firm	External Auditor (Individual Practitioner)
First Offense	P 25,000.00	P 5,000.00
Second Offense	50,000.00	10,000.00
Third Offense	100,000.00	20,000.00

Group B

	Auditing Firm	External Auditor (Individual Practitioner)
First Offense	P 10,000.00	P 2,000.00
Second Offense	20,000.00	4,000.00
Third Offense	40,000.00	8,000.00

Group C

	Auditing Firm	External Auditor (Individual Practitioner)
First Offense	P 5,000.00	P 1,000.00
Second Offense	10,000.00	2,000.00
Third Offense	20,000.00	4,000.00

Group D

	Auditing Firm	External Auditor (Individual Practitioner)
First Offense	P 2,000.00	P 500.00
Second Offense	4,000.00	1,000.00
Third Offense	8,000.00	2,000.00

The payment of the monetary penalty shall not exempt the auditing firm or external auditor from the obligation to comply with the requirements or orders of the Commission, or to submit the correct information, as the case may be.

12.2 **Material deficiency or misstatements in financial reports.** Any auditing firm or responsible external auditor (individual practitioner) who commits any of the violations stated in subparagraphs (iv) to (v) of Section 11 above shall be subject to a penalty equivalent to 50% of the fine imposable on the client-company, based on SEC Memorandum Circular No. 8, Series of 2009, or any of its amendments. The penalty shall be computed on a per client basis.

For external auditors of companies under Group D, the foregoing penalty shall be imposed if there is a written recommendation by the concerned regulatory agency for such imposition.

12.3 **Violation of Independence Requirement.** Any auditing firm or responsible external auditor (individual practitioner) who commits any of the violations stated in subparagraphs (vi) and (vii) of Section 11 above shall be subject to the following fines:

Group A

	Auditing Firm	External Auditor (Individual Practitioner)
First Offense	P 25,000.00	P 5,000.00

Second Offense	50,000.00	10,000.00
Third Offense	100,000.00	20,000.00

Group B

	Auditing Firm	External Auditor (Individual Practitioner)
First Offense	P 10,000.00	P 2,000.00
Second Offense	20,000.00	4,000.00
Third Offense	40,000.00	8,000.00

Group C

	Auditing Firm	External Auditor (Individual Practitioner)
First Offense	P 5,000.00	P 1,000.00
Second Offense	10,000.00	2,000.00
Third Offense	20,000.00	4,000.00

Group D

	Auditing Firm	External Auditor (Individual Practitioner)
First Offense	P 2,000.00	P 500.00
Second Offense	4,000.00	1,000.00
Third Offense	8,000.00	2,000.00

12.4 **Violation of Accreditation Requirement.** Any auditing firm or responsible external auditor (individual practitioner) who enters into an engagement with a company under Group A, B or C without the appropriate accreditation from the Commission shall be subject to the following scale of fines:

Group A companies

	Auditing Firm
First Offense	P 100,000.00
Second Offense	200,000.00
Third Offense	400,000.00

Group B companies

	Auditing Firm
First Offense	P 50,000.00
Second Offense	100,000.00
Third Offense	200,000.00

Group C companies

	Auditing Firm	External Auditor (Individual Practitioner)
First Offense	P 25,000.00	P 10,000.00
Second Offense	50,000.00	20,000.00
Third Offense	100,000.00	40,000.00

Any company covered by this Circular that engages the services of an external auditor who is not accredited by the Commission under the appropriate category shall be subject to the following penalties without prejudice to the other administrative sanctions provided for in Section 54 of the SRC and its implementing rules and regulations:

Group A	P100,000.00
Group B	50,000.00
Group C	25,000.00

For Group D companies, the concerned regulatory agency may impose the appropriate penalties which may include non-acceptance of audited financial statements signed by an unaccredited external auditor.

12.5 The foregoing penalties shall be without prejudice to other administrative or criminal action that may be taken by the Commission against the auditing firm or external auditor and the company.

12.6. **Suspension or Delisting of Accreditation**

i. After due notice and hearing, the accreditation of an auditing firm or external auditor shall be suspended for any of the following grounds:

a. Failure to settle the penalty assessed for any of the violation under Section 11 of this Circular;

b. Continued failure to comply with the requirements of this Circular or directives of the Commission.

The suspension of the accreditation shall be for a period of ninety (90) business from the date of the Order of the Commission. The delisting of the accreditation shall be ordered by the Commission, after due notice and hearing, if the firm or external auditor fails to settle the assessed penalty or comply with the requirements under the Circular within the 90-day suspension period.

The delisted firm or external auditor may re-apply for accreditation provided two years have lapsed from the date of delisting and the assessed penalty is paid or the requirement is complied with. If the applicant has a derogatory record with the Commission, the previously delisted firm or external auditor shall not be qualified for a higher category of accreditation (Group A or B).

ii. After due notice and hearing, the accreditation of an auditing firm shall be delisted under any of the following grounds:

a. Dissolution of the auditing firm or partnership, as evidenced by an Affidavit of Dissolution submitted to the BOA, or upon the finding of the Commission that the firm or partnership has been dissolved. The accreditation of such firm or partnership may, however, be reinstated by the Commission upon written request by the firm with sufficient proof that the dissolution was solely for the purpose of admitting new partner/s and thereafter shall be reorganized and re-registered;

b. The accreditation of the following number or percentage of external auditors, whichever is lesser, has been suspended or delisted for any reason by the Commission:

   1. at least ten (10) signing partners and currently employed accredited external auditors, taken together; or

   2. such number of external auditors constituting fifty percent (50%) or more of the total number of the firm's signing partners and currently employed accredited auditors taken together.

The delisted firm under item (b) above may re-apply for accreditation provided that two years have lapsed from the date of delisting, and the assessed penalty for each suspended or delisted partners or auditors is paid or the requirement is complied with. If the firm has a derogatory record with the Commission, it shall not be qualified for a higher category of accreditation (Group A or B).

SEC. 13. Repealing Clause

This Circular supersedes SEC Memorandum Circular Nos. 13, Series of 2006, and its Annex "A".

SEC. 14. Effectivity Clause

This Circular shall take effect on **15 October 2009**.

Signed this 18th day of September 2009, Mandaluyong City, Philippines.

For the Commission:

Fe B. Barin
FE B. BARIN
Chairperson

ANNEX "A"

I. GROUP A or B APPLICATIONS

a. The latest audited financial statements (AFS) of the top two (2) clients of the applicant based on total assets shall be reviewed.

b. For Group A or B applications, the audit work of applicant shall be acceptable only if there is no material disclosure deficiency or material misstatement in the AFS of each of the applicant's clients. The number of minor disclosure deficiencies therein should not exceed two (2) items. The level of deficiencies acceptable for Group B accreditation shall also be minor disclosure deficiencies that do not exceed five (5) items.

Please refer to paragraph III on "Test of Materiality" under SEC Memorandum Circular No. 8, Series of 2009, or any of its amendments.

c. In case the number of minor disclosure deficiencies exceeds the limit or there is a material deficiency or misstatement in the financial statements of the top two (2) clients, the applicant shall be recommended only for probationary Group A or B accreditation, or Group C, depending on the level of deficiency or misstatement. The probationary accreditation shall be subject to the following conditions:

(i) In case of renewal applications and the findings on the clients' AFS include material deficiency or misstatement, the applicant-external auditor shall be assessed a penalty based on Section 12 of the Circular;

(ii) The probationary accreditation shall be effective for a period of four (4) months only from date of grant;

(iii) A copy of the top two (2) clients' AFS signed by the external auditor during the said period shall be submitted to the Commission at least fifteen (15) business days before the lapse of the 4-month period;

(iv) The final approval of the accreditation, which shall be effective for three (3) years, shall not be granted unless the said AFS and such other clients' latest financial statements as the Commission may review, fully comply with the effective accounting standards and SRC Rule 68.

d. The list of findings on the clients' AFS resulting from the foregoing procedures shall be referred to the operating department of the Commission which monitors the compliance by the said company-clients for imposition of appropriate penalties under existing rules.

II. GROUP C or D APPLICATIONS

a. The latest AFS of the top two (2) clients of the applicant based on total assets shall be reviewed.

b. An application for accreditation under Group C or D shall be denied if upon evaluation, the AFS of top (2) clients show that there are material deficiencies or misstatements therein as follows:

(i) Any of the following basic components of the financial statements is not presented:

(1) Balance Sheet;
(2) Income Statement or Statement of Receipts and Disbursements;
(3) Cash Flow Statement;
(4) Statement of Changes in Equity or Fund Balance;
(5) Notes to Financial Statements.

(ii) The auditor's report does not substantially comply with the Philippine Standards on Auditing, SRC Rule 68 and other relevant regulations;

(iii) The notes to financial statements are substantially incomplete due to the absence of more than five (5) disclosure items on significant accounts;

(iv) More than three (3) accounting policies on significant accounts, as defined under paragraph III of SEC Memorandum Circular No. 8, Series of 2009, or any of its amendments, are not in accordance with PFRS or GAAP, or there are material misstatements involving the said accounts.

c. As a remedy on the denial of application due to any of the foregoing deficiencies, the applicant may be granted, upon request, a probationary accreditation subject to the following conditions:

(i) In case of renewal application for Group C category and the findings on the clients' AFS include material deficiency or misstatement, the applicant-external auditor shall be assessed a penalty based on Section 12 of the Circular;

(ii) The probationary accreditation shall be effective for a period of four (4) months only from date of grant;

(iii) A copy of the largest clients' AFS signed during the said period shall be submitted to the Commission at least fifteen (15) business days before the lapse of the 4-month period;

(iv) The final approval of the accreditation, which shall be effective for three (3) years, shall not be granted unless the said AFS fully complywith the effective accounting standards and SRC Rule 68;

d. The list of findings on the clients' AFS resulting from the foregoing procedures shall be referred to the operating department of the Commission which monitors the compliance by the said company-clients for imposition of appropriate penalties under existing rules.