



Bangko Sentral ng Pilipinas

MAYNILA, PILIPINAS

OFFICE OF THE GOVERNOR

**Circular No. 554
Series of 2006**

Subject: Submission of Annual Audit Report (AAR)

Pursuant to Monetary Board Resolution No. 1470 dated 30 November 2006, the Manual of Regulations for Banks (MORB) is hereby amended, as follows:

Section 1. The following provisions of Subsection X166.1 on **Financial Audit** is hereby amended to read, as follows:

"Sec. X166.1 Financial Audit. Banks shall cause an annual financial audit by an external auditor acceptable to the BSP not later than thirty (30) calendar days after the close of the calendar year or the fiscal year adopted by the bank. Report of such audit shall be submitted to the board of directors or country head, in the case of foreign bank branches, and the appropriate supervising and examining department of the BSP not later than one hundred twenty (120) calendar days after the close of the calendar year or the fiscal year adopted by the bank. The report to the BSP shall be accompanied by the: (1) Certification by the external auditor on the: (a) dates of start and termination of audit; (b) date of submission of the financial audit report and certification under oath stating that no material weakness or breach in the internal control and risk management systems was noted in the course of the audit of the bank to the board of directors or country head; and (c) the absence of any direct or indirect financial interest and other circumstances that may impair the independence of the external auditor; (2) Reconciliation Statement between the AFS and the balance sheet and income statement for bank proper (regular and FCDU) and trust department submitted to the BSP, including copies of adjusting entries ON THE RECONCILING ITEMS; and (3) other information that may be required by the BSP."

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PANANALAPING MATATAG, BANSANG PANATAG

"Government-owned or controlled banks, including their subsidiaries and affiliates, as well as other financial institutions under BSP supervision which are under the concurrent jurisdiction of the Commission on Audit (COA) shall be exempt from the aforementioned annual financial audit by an acceptable external auditor: *Provided*, That when warranted by supervisory concern such as material weakness/breach in internal control and/or risk management systems, the Monetary Board may, upon recommendation of the appropriate supervising and examining department of the BSP, require the financial audit to be conducted by an external auditor acceptable to the BSP, at the expense of the institution concerned: *Provided further*, That when circumstances such as, BUT NOT LIMITED TO, loans from multilateral financial institutions, privatization, or public listing warrant, the financial audit of the institution concerned by an acceptable external auditor may also be allowed.

BANKS AND OTHER FINANCIAL INSTITUTIONS UNDER THE CONCURRENT JURISDICTION OF THE BSP AND COA SHALL, HOWEVER, SUBMIT A COPY OF THE ANNUAL AUDIT REPORT (AAR) OF THE COA TO THE APPROPRIATE SUPERVISING AND EXAMINING DEPARTMENT OF THE BSP WITHIN THIRTY (30) BANKING DAYS AFTER RECEIPT OF THE REPORT BY THE BOARD OF DIRECTORS. THE AAR SHALL BE ACCOMPANIED BY THE: (1) CERTIFICATION BY THE INSTITUTION CONCERNED ON THE DATE OF RECEIPT OF THE AAR BY THE BOARD OF DIRECTORS; (2) RECONCILIATION STATEMENT BETWEEN THE AFS IN THE AAR AND THE BALANCE SHEET AND INCOME STATEMENT OF BANK PROPER (REGULAR AND FCDU) AND TRUST DEPARTMENT SUBMITTED TO THE BSP, INCLUDING COPIES OF ADJUSTING ENTRIES ON THE RECONCILING ITEMS; AND (3) OTHER INFORMATION THAT MAY BE REQUIRED BY THE BSP.

THE BOARD OF DIRECTORS OF SAID INSTITUTIONS, IN A REGULAR OR SPECIAL MEETING, SHALL CONSIDER AND ACT ON THE AAR, AS WELL AS ON THE COMMENTS AND OBSERVATIONS AND SHALL SUBMIT, WITHIN THIRTY (30) BANKING DAYS AFTER RECEIPT OF THE REPORT, A COPY OF ITS RESOLUTION TO THE APPROPRIATE SUPERVISING AND EXAMINING DEPARTMENT OF THE BSP. THE RESOLUTION SHALL SHOW THE ACTION(S) TAKEN ON THE REPORT, INCLUDING ON THE COMMENTS AND OBSERVATIONS AND THE NAMES OF THE DIRECTORS PRESENT AND ABSENT, AMONG OTHER THINGS."

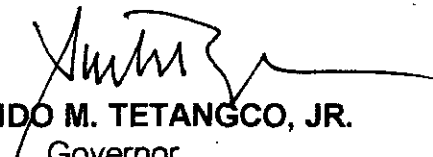
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Section 2. The "Checklist of BSP Requirements in the Submission of Financial Audit Report and Reports Required Under Section 7 of Circular No. 410" is hereby renamed "Checklist of BSP Requirements in the Submission of Financial Audit Report (FAR), Annual Audit Report (AAR) and Reports Required Under Section 7 of Circular No. 410" (Appendix to Subsec. X166.1) and amended as attached.

Section 3. The foregoing amendments are hereby adopted as amendments to the Q-Regulations, N-Regulations and S-Regulations of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI).

This Circular shall take effect fifteen (15) days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:


AMANDO M. TETANGCO, JR.
Governor

22 December 2006

Name of Bank/NBQB
Comparison of Submitted Consolidated Balance Sheet and Income Statement
and Audited Financial Statements
(Parent and Subsidiaries)
As of (end of calendar year or fiscal year)
(In Thousand Pesos)

	<u>Submitted Report</u>	<u>Audited Report</u>	<u>Variance/ Discrepancy</u>	<u>Reason for Discrepancy</u>
Cash and Other Cash Items				
Due from BSP				
Due from Other Banks				
Financial Assets Held for Trading (HFT)				
Held-to-Maturity (HTM) Financial Assets				
Available-for-Sale (AFS) Financial Assets				
Loans and Receivables, net				
Interbank Loans Receivable				
Equity Investment in Subsidiaries, Associates & Joint Ventures				
Bank Premises, Furniture, Fixtures and Equipment, net				
Real and Other Properties Acquired (ROPA), net				
Other Assets				
Due from Head Office/Branches/Agencies Abroad				
Total Assets	<u> </u>	<u> </u>	<u> </u>	
Deposit Liabilities				
Bills Payable				
Bonds Payable				
Unsecured Subordinated Debt (USD)				
Redeemable Preferred Shares				
Accrued Interest, Taxes and Other Expenses				
Other Liabilities				
Due to Head Office/Branches/Agencies Abroad				
Total Liabilities	<u> </u>	<u> </u>	<u> </u>	
Paid-In Capital Stock				
Additional Paid-In Capital				
Retained Earnings				
Assigned Capital				
Total Capital	<u> </u>	<u> </u>	<u> </u>	
Total Liabilities and Capital	<u> </u>	<u> </u>	<u> </u>	
Total Income				
Total Expenses				
Net Income Before Income Tax	<u> </u>	<u> </u>	<u> </u>	

**Checklist of BSP Requirements in the Submission of
Financial Audit Report (FAR), Annual Audit Report (AAR) and
Reports Required Under Section 7 of Circular No. 410
(Appendix to Subsec. X166.1)**

The external auditor (Included in the List of BSP Selected External Auditors) shall start the audit not later than thirty (30) calendar days after the close of the calendar/fiscal year adopted by the bank. Audited financial statements (AFS) of banks with subsidiaries shall be presented side by side on a solo basis and on a consolidated basis (banks and subsidiaries). The FAR shall be submitted by the bank to the appropriate supervising and examining department of the BSP not later than one hundred twenty (120) calendar days after the close of the calendar year or fiscal year adopted by the bank, together with the following:

Information/Data Required	Deadline for submission
A. FINANCIAL AUDIT REPORT	
1. Certification by the external auditor on the following:	For submission together with the FAR not later than one hundred twenty (120) calendar days after the close of the calendar year or fiscal year adopted by the bank.
a. the dates of commencement and termination of audit;	
b. the date when the FAR and certification under oath stating that no material weakness or breach in the internal control and risk management systems was noted in the course of the audit of the bank were submitted to the board of directors or country head, in the case of foreign bank branches; and	
c. That the external auditor, partners, associates, auditor-in-charge of the engagement and the members of their immediate family do not have any direct or indirect financial interest with the bank, its subsidiaries and affiliates and that their independence is not considered impaired under the circumstances specified in the Code of Professional Ethics for Certified Public Accountants.	
2. Reconciliation Statement for the differences in amounts between the audited and the submitted Balance Sheet and Income Statement for bank proper (regular and FCDU) and trust department, including copies of adjusting entries ON THE RECONCILING ITEMS.	For submission together with the FAR not later than one hundred twenty (120) calendar days after the close of the calendar year or fiscal year adopted by the bank.

Note: Please see pro-forma comparative analysis (Annex 1).

3. Letter of Comments (LOC) indicating the external auditor's findings and comments on the material weakness noted in the internal control and risk management systems and other aspects of operations.

In case no material weakness is noted to warrant the issuance of an LOC, a certification under oath stating that no material weakness or breach in the internal control and risk management systems was noted in the course of the audit of the bank shall be submitted by the external auditor.

4. Copies of the board resolutions showing the:

- a. Action taken on the FAR and, where applicable, on the certification under oath including the names of the directors present and absent, among other things; and
- b. Action taken on the findings and recommendations in the LOC, and the names of the directors present and absent, among other things.

5. in case of foreign banks with branches in the Philippines, in lieu of the board resolution:

- a. a report by the country head on the action taken by management (head office, regional or country) on the FAR and, where applicable, on the certification under oath stating that no material weakness or breach in the internal control and risk management systems was noted in the course of the audit of the bank;
- b. a report by the country head on the action taken by management (head office, regional or country) on the LOC.

6. Certification of the external auditor on the date when the LOC was submitted to the board of directors or country head.

7. All the required disclosures in the AFS provided under Subsecs. X166.4.

Within thirty (30) calendar days after submission of the FAR.

For submission together with the FAR not later than one hundred twenty (120) calendar days after the close of the calendar year or fiscal year adopted by the bank.

Within thirty (30) banking days after the receipt of the FAR and certification under oath by the board of directors.

Within thirty (30) banking days after the receipt of the LOC by the board of directors.

Within thirty (30) banking days after the receipt of the FAR and certification under oath by the country head.

Within thirty (30) banking days after the receipt of the LOC by the country head.

Within thirty (30) banking days after the receipt of the LOC by the board of directors or country head.

For submission together with the FAR not later than one hundred twenty (120) calendar days after the close of the calendar year or fiscal year adopted by the bank.

8. Reports required to be submitted by the external auditor under Section 7 of Circular No. 410:

- a. To enable the BSP to take timely and appropriate remedial action, the external auditor must report to the BSP, the following cases:

- 1) any material finding involving fraud or dishonesty (including cases that were resolved during the period of audit); and
- 2) any potential losses the aggregate of which amounts to at least one percent (1%) of the capital.

- b. The external auditor shall report directly to the BSP the following:

- 1) termination or resignation as external auditor and stating the reason therefor;
- 2) 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.
3. 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.), A NOTARIZED CERTIFICATION THAT THERE IS NONE TO REPORT.

Within thirty (30) calendar days after discovery.

Within fifteen (15) calendar days after the occurrence/discovery.

WITHIN FIFTEEN (15) CALENDAR DAYS AFTER THE CLOSING OF THE AUDIT ENGAGEMENT.

B. ANNUAL AUDIT REPORT - FOR BANKS AND OTHER FINANCIAL INSTITUTIONS UNDER THE CONCURRENT JURISDICTION OF THE BSP AND COMMISSION ON AUDIT (COA).

1. COPY OF THE AAR ACCOMPANIED BY THE:

- a) CERTIFICATION BY THE INSTITUTION CONCERNED ON THE DATE OF RECEIPT OF THE AAR BY THE BOARD OF DIRECTORS;

WITHIN THIRTY (30) BANKING DAYS AFTER RECEIPT OF THE AAR BY THE BOARD OF DIRECTORS.

- b) RECONCILIATION STATEMENT BETWEEN THE AFS IN THE AAR AND THE BALANCE SHEET AND INCOME STATEMENT OF BANK PROPER (REGULAR AND FCDU) AND TRUST DEPARTMENT SUBMITTED TO THE BSP, INCLUDING COPIES OF ADJUSTING ENTRIES ON THE RECONCILING ITEMS; AND
 - c) OTHER INFORMATION THAT MAY BE REQUIRED BY THE BSP.
2. COPY OF THE BOARD RESOLUTION SHOWING THE ACTION TAKEN ON THE AAR, AS WELL AS ON THE COMMENTS AND OBSERVATIONS, INCLUDING THE NAMES OF THE DIRECTORS PRESENT AND ABSENT, AMONG OTHER THINGS.
- WITHIN THIRTY (30) BANKING DAYS AFTER RECEIPT OF THE AAR BY THE BOARD OF DIRECTORS.