



NOTICE

TO: ALL INTERESTED PARTIES (AUDITING FIRMS AND EXTERNAL AUDITORS)

SUBJECT: GUIDELINES ON THE ADOPTION OF CENTRALIZED (ONE-STOP-SHOP) FRAMEWORK FOR ACCREDITATION/ SELECTION OF EXTERNAL AUDITOR

DATE: 19 JULY 2019

Notice is hereby given that the Commission intends to roll out another initiative this August 2019 which is the One-Stop-Shop (Centralized) Accreditation of External Auditor. In this light, the SEC is issuing the Guidelines on the Adoption of a Centralized (One-Stop-Shop) Framework for Accreditation/Selection of External Auditors (individual practitioners and audit firms) in the financial sector in line with its cooperative arrangements with the Bangko Sentral ng Pilipinas (BSP), Insurance Commission (IC), and Philippine Deposit Insurance Corporation (PDIC), under the auspices of the Financial Sector Forum (FSF).

All interested parties are invited to submit their comments/recommendations/suggestions on the attached proposed Guidelines on the Adoption of a Centralized Framework for Accreditation/Selection of External Auditors (individual practitioners and audit firms) **not later than 05 August 2019**.

Comments/recommendations/suggestions can be submitted to the **Office of the General Accountant at the 3rd Floor, Secretariat Building, Philippine International Convention**

Center Complex, Pasay City or can be e-mailed at secoga@sec.gov.ph

In summary, the guidelines aims to streamline the accreditation/selection process for external auditors across the financial sector and promote the ease of doing business.

**GUIDELINES ON THE ADOPTION OF CENTRALIZED (ONE-STOP-SHOP)
FRAMEWORK FOR ACCREDITATION/SELECTION OF EXTERNAL AUDITORS/AUDITING FIRMS
OF THE SECURITIES AND EXCHANGE COMMISSION, BANGKO SENTRAL NG PILIPINAS AND
INSURANCE COMMISSION'S REGULATED AND SUPERVISED INSTITUTIONS**

SECTION 1. POLICY STATEMENT

The Securities and Exchange Commission (SEC), considers the external auditing profession as a partner in promoting the integrity of financial reports and transparency in the financial system. In this light, the SEC is issuing the guidelines on the adoption of a centralized framework for accreditation/selection of external auditors (individual practitioners and audit firms) in the financial sector in line with its cooperative arrangements with the Bangko Sentral ng Pilipinas (BSP), Insurance Commission (IC), and Philippine Deposit Insurance Corporation (PDIC), under the auspices of the Financial Sector Forum (FSF). The guidelines aims to streamline the accreditation/selection process for external auditors across the financial sector and promote the ease of doing business.

SECTION 2. DEFINITION OF TERMS

Financial Sector Regulators - refers to the Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC), Insurance Commission (IC) and Philippine Deposit Insurance Corporation (PDIC).

Financial Sector Forum - a voluntary interagency body to:

- a. Facilitate consultations and the exchange of information among its members on matters relating to the supervision and regulation of financial institutions supervised and regulated by the BSP, SEC or IC or insured by the PDIC, and
- b. Coordinate the regulatory and supervisory policies and efforts of the member agencies.

Gross negligence - refers to wanton or reckless disregard of the duty of due care in complying with the Philippine Standards on Auditing (PSA).

Material Information - refers to information whose omission or misstatement, by their size or nature, individually or collectively, could influence the economic decisions of its users.

Conditional approval - refers to the grant of approval of the application with shorter validity period.

Suspension - refers to temporarily barring the external auditor to conduct audit of covered institutions for a certain period of time.

Delisting - refers to the revocation of the validity of inclusion in the financial sector regulators' list of accredited/selected external auditors.

Engagement Quality Control Reviewer - refers to a partner who is responsible for the audit engagement quality control review.

Lead Partner - refers to the partner or other person in the firm who is responsible for the engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

Auditor-in-charge - refers to the term leader of the audit engagement and cover the staff in-charge level.

Manager - refers to any manager or supervisor level in the engagement team or in the auditing process.

Non-audit services - refers to services provided to covered institutions by a registered CPA or Accounting Firm other than those provided in connection with an audit or a review of the financial statements of covered institutions.

Affiliates - refers to an entity linked directly or indirectly to a covered institution by means of:

- a. Ownership, control, or power to vote at least twenty per cent (20%) of the outstanding voting stock of the entity, or vice-versa;
- b. Interlocking directorship or officership where the director or officer concerned owns, controls, or has the power to vote, at least twenty per cent (20%) of the outstanding voting stock of the entity;
- c. Common ownership, whereby the common stockholders own at least ten per cent (10%) of the outstanding voting stock of the covered institution and at least twenty per cent (20%) of the outstanding voting stock of the entity ;
- d. Management contract or any arrangement granting power to the covered institution to direct or cause the direction of management and policies of the entity; or
- e. Permanent proxy or voting trusts in favor of the covered institution constituting at least twenty per cent (20%) of the outstanding voting stock.

In case of conflict between the above definition of terms and the definition of terms as provided for in the rules and regulations of the financial sector regulators, the definition adopted by the concerned financial sector regulator shall prevail.

SECTION 3. COVERED ENTITIES AND APPOINTMENT OF EXTERNAL AUDITORS

- a. External auditors shall be classified into three categories and shall extend their services to covered entities belonging to the same category or to categories lower than the category of the external auditor, as follows:

1. Category A

Bangko Sentral ng Pilipinas:

- a. Universal/Commercial Banks;
- b. Foreign Banks and branches or subsidiaries of foreign banks; and
- c. Banks, trust departments and trust corporations with additional derivatives authority.

Securities and Exchange Commission:

- a. Issuers of registered securities which have sold class of securities pursuant of a registration under Securities Regulation Code except those issuers of registered time shares, proprietary and non-proprietary membership certificates which are covered in Group B. This category shall also cover corporations applying for the registration of their securities;
- b. Issuers with a class of securities listed for trading in an Exchange; and
- c. Public companies or those which have total assets of at least Fifty Million Pesos (P50 million) 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.

Insurance Commission:

- a. Insurance companies;
- b. Reinsurance companies; and
- c. Mutual benefit associations (MBA).

2. Category B.

Bangko Sentral ng Pilipinas:

- a. Thrift Banks;
- b. Non-bank financial institutions with quasi-banking license; and
- c. Trust departments and trust corporations.

Securities and Exchange Commission:

- a. Issuers of registered timeshares, proprietary and non-proprietary membership certificates, and corporations applying for the registration of such securities;
- b. Investment houses;
- c. Brokers and dealers of securities;
- d. Government securities eligible dealers;
- e. Universal banks registered as underwriters of securities;
- f. Investment company advisers;
- g. Special purpose corporations registered under the Securitization Act of 2004 and its implementing rules; and
- h. Such other corporations which may be required by law to be supervised by the Commission.

Insurance Commission:

- a. Trust for charitable uses;
- b. Pre-need companies;
- c. Health Maintenance Organizations (HMO) companies; and
- d. Insurance, reinsurance, pre-need and HMO brokers.

3. Category C

Bangko Sentral ng Pilipinas:

- a. Rural and Cooperative Banks;
- b. Non-stock Savings and Loan Associations;
- c. Pawnshops;
- d. Remittance and Transfer Companies (RTCs)/Money Changers/Foreign Exchange Dealers (MCs/FXD), including Virtual Currency Exchanges and Electronic Money Issuers; and
- e. Credit Card Issuers/Acquirers.

Securities and Exchange Commission:

- a. Financing Companies (with total assets of more than P10 Million);
- b. Lending Companies (with total assets of more than P5 Million);
- c. Transfer agents; and
- d. Such other corporations that the Commission may consider as imbued with public interest regardless of the lack of a requirement to obtain a secondary license from the Commission.

Insurance Commission:

- a. Micro-MBAs; and

b. General Agents.

The Financial Sector Regulators may effect any modification or amendments to the above categories as need arises.

- b. Covered institutions shall engage the services of an external auditor included in the List of Accredited/Selected External Auditors for covered institutions supervised by the Financial Sector Regulators. In this respect, covered institutions shall only appoint an external auditor belonging to the same category or from categories higher than the category of the covered institutions concerned provided in this Section: Provided, that the respective Financial Sector Regulators may require the institutions to appoint an external auditor from higher categories as part of its supervisory action on the covered institution.
- c. Lead partners and engagements quality control reviewers of the audit firms appointed by covered entities shall be included in the Financial Sector Regulators' List of Accredited/Selected External Auditors. They shall be subject to the same selection process in accordance with this Circular. In the event that the selected partners leave the audit firm prior to the expiration of his/her inclusion in the Financial Sector Regulators' list of Accredited/Selected External Auditors, he/she may only audit covered institutions under Category C unless he/she is subsequently included in the Financial Sector Regulators' list of Accredited/Selected External Auditors as an individual external auditor under another category.
- d. The independent auditors or in the case of an auditing firm, key audit partners, as defined under this Guidelines, shall comply with the provisions on long association of personnel (including partner rotation) with an audit client as prescribed in the Code of Ethics for Professional Accountants in the Philippines as adopted by the Board of Accountancy (BOA) and Professional Regulation Commission (PRC) and such other standards as may be adopted by the SEC.
- e. The Financial Sector Regulators, under the auspices of the FSF, shall not be held responsible for any liability or loss that may arise from the accreditation/selection of the external auditor engaged by covered entities for regular audit or non-audit services.
- f. The Accreditation/Selection of External Auditor under this Guidelines shall be valid for five (5) years or for a shorter period prescribed by the Financial Sector Regulators, unless suspended and/delisted by the financial sector regulators based on grounds provided under Section 8. The validity of five (5) years shall be deemed ineffective upon expiration of the BOA registration and license to practice public accountancy.
- g. The approval by the SEC of the application for accreditation/inclusion in the List of Accredited/Selected External Auditors of entities being supervised and regulated by the BSP and IC shall be subject to the concurrence of the BSP and/or IC, as applicable.

- h. The suspension and/or revocation/delisting of the external auditors shall be the sole responsibility of each of the financial sector regulators. The regulator concerned shall inform the SEC of the suspension and/or delisting of the external auditor.

SECTION 4. QUALIFICATION REQUIREMENTS

An accredited/ selected external auditor shall have the following qualifications at the time of application:

- a. Individual external auditor or Partner of an Audit Firm
 1. Accredited and licensed by the BOA;
 2. Has at least five (5) years experience in external audit as an in-charge, manager, lead partner, engagement quality control reviewer or its equivalent (as previously/currently employed in an auditing firm);
 3. Has established adequate quality assurance procedures to ensure full compliance with recognized standards in accounting, and regulatory requirements;
 4. Has attended or participated in training for at least 120 hours in subjects like international financial reporting and auditing standards, corporate governance, taxation, code of ethics and regulatory requirements of the BSP, IC and SEC relevant to the practice and qualified as a form of compliance with the Continuing Professional Development Program of the BOA; and
 5. At the time of application, the applicant must have the following track record:

BSP:

- a. For Category A, he/she must have audited at least one (1) covered client under Category A or at least five (5) BSP-Supervised Financial Institutions (BSFI) clients under Category B.
- b. For Category B, he/she must have at least two (2) covered clients under Category B or at least six (3) BSFI clients under Category C.
- c. For Category C, he/she must have at least three (3) covered corporate clients with total assets of at least P10.0 Million.

SEC:

- a. For Group A applicant, he/she shall have had a minimum of five (5) corporate clients with total assets of at least Fifty Million Pesos (P50 Million) each, or such amount as may be prescribed by the Commission.
- b. For Group B, he/she shall have had a minimum of three (3) corporate clients with total assets of at least Twenty Million Pesos (P20 Million) each, or such amount as may be prescribed by the Commission.

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- c. For Group C, he/she shall have had a minimum of three (3) corporate clients with total assets of at least Five Million Pesos (P5 Million) each, or such amount as may be prescribed by the Commission.

IC:

- a. For Group A, the applicant must have audited at least five (5) IC-regulated entities under Group A either as lead or concurring partner, or at least ten (10) IC-regulated entities under Group B, or ten (10) corporate clients with at least Fifty Million Pesos (P50 Million) each. Provided further, there are no material findings on the quality of his/her audit work within the last three (3) years.
- b. For Group B, the applicant must have audited at least three (3) IC-regulated entities under Group B either as lead or concurring partner, or at least five (5) IC-regulated entities under Group C, or five (5) corporate clients with total assets of at least Twenty Million Pesos (P20 Million) each. Provided further, there are no material findings on the quality of his/her audit work within the last three (3) years.
- c. For Group C, he shall have had a minimum of three (3) IC-regulated entities under Group C either as lead or concurring partner, or at least five (5) corporate clients with total assets of at least Five Million Pesos (P5 Million) each. Provided further, there are no material findings on the quality of his/her audit work within the last three (3) years.

For individual external auditors who have valid accreditations with the Financial Sector Regulators, they are given until December 31, 2021 to transition to a partnership structure in order to comply with the subject requirements.

b. Audit Firm

1. Must be accredited by the BOA and the name of the partners applying for accreditation/selection should appear in the attachment to the certificate of accreditation issued by the PRC/BOA.
2. Must have established adequate quality assurance procedures to ensure full compliance with the recognized standards in accounting, auditing and regulatory requirements;
3. Must have at least two (2) partners, who are accredited/selected under the same category as the audit firm is applying for, at the time of application and during the validity of its inclusion in the Financial Sector Regulators' List of Accredited/Selected External Auditors. For audit firm which has still less than two (2) partners accredited/selected, it has until December 31, 2021 to comply with the subject requirement; and

4. At the time of application, the applicant firm must have the following track record:

BSP:

- a. For Category A, the applicant firm must have audited at least five (5) covered clients under Category A or ten (10) covered clients under Category B.
- b. For Category B, the applicant firm must have audited at least three (3) covered clients under Category B or five (5) covered clients under Category C.
- c. For Category C, the applicant firm must have audited at least five (5) corporate clients with total assets of at least Fifty Million Pesos (P50 Million) each.

SEC:

- a. For Group A applicant, he shall had a minimum of five (5) corporate clients with total assets of at least Fifty Million Pesos (P50 Million) each, or such amount as may be prescribed by the Commission.
- b. For Group B, he shall have had a minimum of three (3) corporate clients with total assets of at least Twenty Million Pesos (P20 Million) each, or such amount as may be prescribed by the Commission.
- c. For Group C, he shall have had a minimum of three (3) corporate clients with total assets of at least Five Million Pesos (P5 Million) each, or such amount as may be prescribed by the Commission.

IC:

- a. For Group A, the applicant audit firm must have audited at least five (5) IC-regulated entities under Group A, or at least ten (10) IC-regulated entities under Group B, or ten (10) corporate clients with at least Fifty Million Pesos (P50 Million) each. Provided further, there are no material findings on the quality of audit work within the last three (3) years.
- b. For Group B, the applicant audit firm must have audited at least three (3) IC-regulated entities under Group B, or at least five (5) IC-regulated entities under Group C, or five (5) corporate clients with total assets of at least Twenty Million Pesos (P20 Million) each. Provided further, there are no material findings on the quality of audit work within the last three (3) years.
- c. For Group C, the applicant firm must have audited at least three (3) IC-regulated entities under Group C or five (5) corporate clients with total assets of at least Five Million Pesos (P5 Million) each. Provided further, there are no material findings on the quality of his/her audit work during the last three years.

SECTION 5. INDEPENDENCE OF EXTERNAL AUDITOR

The external auditor, including the partner or its equivalent, and audit-in charge shall fully meet the independence requirements provided under the Code of Ethics for Professional Accountants in the Philippines on a continuing basis, as well as the following:

- a. The external auditor, including the partner or its equivalent, and audit in-charge of the engagement, or any member of his immediate family within the second degree of consanguinity or affinity, does not have direct or indirect financial interests in the concerned covered entity. For this purpose, direct or indirect financial interests shall refer to a collective investment vehicle, estate, trust or other intermediary over which the external auditor as beneficial owner has control or ability to influence investment decision;
- b. The external auditor, including the partner or its equivalent, and audit in-charge of the engagement, or any member of his immediate family within the second degree of consanguinity or affinity, does not have outstanding loans or any credit accommodations (except credit card obligations which are normally available to other credit card holders and fully secured auto and housing loans that are not past due) with covered entity and its subsidiaries and affiliates (if applicable);
- c. The Chief Executive Officer¹ or Chief Financial Officer or his/her equivalent rank in the covered entity was not previously employed by the external auditor in any capacity in the audit of the concerned covered entity during the one-year preceding the date of the initiation of the audit; and
- d. The individual external auditor or partner or its equivalent or auditor-in-charge of the engagement was not an officer or director of the covered entity or its subsidiaries and affiliates during the one-year period preceding the date of the initiation of the audit.

The external auditor shall not undertake any advisory or non-audit services in the covered entity unless approved by the covered entity's Board of Directors or its audit committee, if applicable. The conduct of any non-audit services should be aligned with the requirements of the Code of Ethics for Professional Accountants.

¹ Shall also refer to the President or any other position referring to the top management post in the covered entity.

SECTION 6. APPLICATION/RENEWAL OF INCLUSION IN THE LIST OF ACCREDITED/SELECTED EXTERNAL AUDITORS

- a. A notarized Application Form (Form 1 for Audit Firm; Form 2 for Individual External Auditor) shall be submitted by the applicant to the SEC, together with the following supporting documents:

For Initial Application:

1. Copy of a valid BOA Certificate of Accreditation or PRC Accreditation under Philippine bilateral agreements, with attachment listing the name of qualified partner/s of the firm (as applicable);
2. Certificate or written proof of attendance/participation to trainings/seminars;
3. Copy of the Quality Assurance Manual; and
4. Copy of the latest Audited Financial Statements of the Applicant's two (2) largest corporate clients in terms of assets.

For Renewal:

1. Copy of a valid BOA Certificate of Accreditation or PRC Accreditation under Philippine bilateral agreements, with attachment listing the name of qualified partner/s of the firms (as applicable);
2. Certificate or written proof of attendance/participation to trainings/seminars; and
Copy of Amended Quality Assurance Manual (if any).

- b. The external auditor shall apply for renewal within the first six months of the last year of validity of its inclusion in the Financial Sector Regulators' list of Accredited/Selected External Auditors.
- c. **The following fees shall apply in the application for selection in the Financial Sector Regulators' List of Accredited/Selected External Auditors:**

| Category | Applicable Fees | |
|------------|-----------------------------|------------|
| | Individual External Auditor | Audit Firm |
| Category A | P20,000 | P50,000 |
| Category B | P10,000 | P30,000 |
| Category C | P5,000 | P10,000 |

Fees paid are not refundable in case of denial/conditional approval of application, suspension, or delisting in the (Agency name) List of Selected External Auditors.

The procedures for processing and approval of those applicants applying for accreditation with the SEC shall be governed by Securities Regulation Code (SRC) Rule 68, as amended or subsequent amendments thereto, except on the terms of Conditional Accreditation.

SECTION 7. REPORTORIAL REQUIREMENTS

The external auditor included in the list of accredited/selected external auditors shall adhere to the regulatory and reportorial requirements set out by the respective financial sector regulators of the covered institutions.

SECTION 8. GROUNDS FOR SUSPENSION AND/OR DELISTING OF EXTERNAL AUDITORS IN THE LIST OF ACCREDITED/SELECTED EXTERNAL AUDITORS

An external auditor included in the List of Accredited/Selected External Auditors shall be suspended or delisted by the financial supervisor regulator concerned, under any of the following grounds:

1. Gross negligence in the conduct of the audit or failure to comply with the Philippine Standards on Auditing and such other issuances of the Auditing and Assurance Standards Council;
2. Issuance of an unqualified opinion which is not supported by full compliance by the auditee with the applicable financial reporting framework due to material deficiencies or misstatements in the financial statements;
3. Conduct of any non-audit services for his statutory audit clients, if he has not undertaken the safeguards to reduce the threat to his independence;
4. Any material misrepresentation in the reports submitted to the Financial Sector Regulators;
5. Failure to comply with the regulatory and reportorial requirements prescribed by the financial sector regulators;
6. Refusal for no valid reason, upon lawful order of the financial sector regulators, to submit requested documents in connection with an ongoing investigation. The external audit shall, however, be made aware of such investigation;
7. Failure to obtain from the SEC an accreditation appropriate to the client's category provided under Section 3; and
8. Any other grounds as the financial sector regulators may deem applicable.

Such sanction will be imposed only to the accredited external auditor who has committed such violation. The Commission may, however, impose further sanctions on the firm and other partners of the firm as deemed appropriate.

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The suspension and/or delisting of the external auditors shall be the sole responsibility of each of the financial sector regulators. The regulator concerned shall inform the SEC of the suspension and/or delisting of external auditor.

SECTION 9. TRANSITORY PROVISION

1. For those external auditors who will be granted accreditation under this Guidelines, the accreditation validity will cover five (5) year audit period.
2. External auditors whose validity of accreditation with the SEC will expire on or before December 31, 2019 are hereby given one (1) year extension of their accreditation allowing them to engage in the audit of the 2019 financial statements.

SECTION 10. REPEALING CLAUSE

The provisions in SRC Rule 68, as amended, not consistent with the provisions of this Memorandum Circular are hereby repealed or amended.