

REPUBLIC OF THE PHILIPPINES
PROFESSIONAL REGULATION COMMISSION



BOARD OF ACCOUNTANCY

Q&A DISCUSSES RULES ON CPA COMPILATION SERVICES CERTIFICATION

With the publication of BoA Resolution 3-2016 on January 24, 2016, this resolution takes effect on February 8, 2016. This resolution prescribes the submission of the Certificate for Compilation Services for the preparation of Financial Statements and notes thereto ("Certificate").

The BoA has also released the Question and Answer (Q&A) sheet dealing on the various issues and questions on the resolution.

Among others, the Q&A clarifies that the submission of the Certificate shall only be optional for FS ending December 31, 2015 and subsequent periods until May 30, 2016. The attachment of the Certificate to the statutory FS shall be mandatory for FS ending June 30, 2016 and all subsequent periods. This rule is in response to the PICPA National request submitted to the Board on June 26, 2015.

The Q&A also reiterated the rule that the application for accreditation of CPAs in Commerce and Industry responsible for the preparation of the FS and the submission of the Certificate shall be on February 29, 2016.

Copies of the Q&A can be downloaded from the BoA website boa.com.ph.



QUESTIONS AND ANSWERS ON BOA RESOLUTION 3-2016

REQUIRING THE SUBMISSION OF CERTIFICATE BY THE RESPONSIBLE CERTIFIED PUBLIC ACCOUNTANTS ON THE COMPILATION SERVICES FOR THE PREPARATION OF FINANCIAL STATEMENTS AND NOTES THERETO

Q1. What is the rationale for the issuance of BoA Resolution 3-2016?

A1. As discussed in the Resolution, the requirements prescribed are intended to address the need to have professional competence in the preparation of the FS, to address the self-review threats or risks in external audit of FS, to pinpoint responsibility in the compilation services in the preparation of the FS as allowed and required under the Accountancy Law and the Code of Ethics of the CPAs. Furthermore, this new rule will help in the further enhancement of the reliability of the annual statutory FS being submitted to the SEC and the BIR. With the signing of this Certificate by the CPA who is responsible for the preparation of the FS, accountability on the part of the CPA will be pinpointed and his/her obligation to do diligent work will further be reinforced .

Q2 What was the process in the issuance and of the Resolution?

A2. The draft of this Resolution was disseminated on November 26, 2015 in the BoA website, social network and to the various sectoral organizations. There were several comments received to date and with the more relevant ones being incorporated in the Resolution and /or subsequent issuances.

Q3. What is the main feature of this Resolution?

A3. The main feature is the requirement that the responsible Certified Public Accountant (CPA) should accomplish and submit a prescribed Certificate for Compilation Services for the preparation of Financial Statements (FS) and notes thereto (" the Certificate") of covered organizations and persons. This Certificate states the specific task and responsibility that the CPA must faithfully comply with in when preparing the FS. The CPA is required to commit to the obligations indicated in and to sign this accordingly. The Certificate should then be attached to the annual statutory reports or FS to be submitted to the BIR and SEC.

A4. Do these new rules apply to the other special regulatory reports that are submitted to the other regulators, like the Bangko Sentral ng Pilipinas, Cooperative Development Authority, Energy Regulatory Commission, Insurance Commission, Philippine Contractors Accreditation Board and any other government offices?

A.4 For these special regulatory reports to be submitted to these government agencies, other than those submitted to the BIR and SEC, these rules do not apply.

Q5. What are the other features of this Resolution?

A5. The other features are:

1. The Certificate is different from the Statement of Management Responsibility (SMR) and hence the SMR should continue to be prepared and attached to the statutory reports submitted to the SEC and the BIR

2. The Certificate should be prepared only for issuers of FS which/who have gross sales or revenues exceeding ten million pesos (P10,000,000) for a particular accounting year
3. The preparation of the FS and disclosure notes is a practice of accountancy in commerce and industry and shall be done only by Certified Public Accountants ("CPAs")
4. There is a reiteration of the rule that CPAs in public practice are prohibited from preparing or assisting in the preparation of FS and disclosure note of their clients which engaged them to render attest services for the same documents
5. The CPAs in public practice who violate this prohibition rule shall be subject to stern sanctions by the Board of Accountancy
6. The CPAs rendering the compilation services for the preparation of the FS and signing the Certificate should first be accredited with the Professional Regulatory Board of Accountancy after submitting the necessary application and complying with the Continuing Professional Development (CPD) requirements.
7. These CPAs should apply for accreditation not later than February 29, 2016 and comply with the CPD requirements not later than June 30, 2016 after signing an affidavit of undertaking to that effect.
8. The rules shall apply for the FS ending December 31, 2015 and subsequent periods ending May 30, 2016, on an OPTIONAL basis, and all FS ending June 30, 2016 all subsequent periods, on a MANDATORY basis.

Q6 What are the scope and of the compilation services and the responsibilities of the CPA in terms of the services rendered and the issuance of the Certificate?

A6. These are covered and discussed in the Philippine Standard on Related Services 4410 (Revised), Compilation Engagements

Q7. Who should sign the Certificate?

A7 The CPA who has the principal responsibility to do the compilation services for the preparation of the FS of the covered organizations or persons (see Q6) should sign the Certificate. The CPA can be the BoA accredited CPA employee of the covered organization/person or a qualified BoA accredited external CPA hired for the compilation services.

Q8. Who are covered by this requirement of submission of the Certificate for compilations services for the preparation of their FS?

A8. Organizations (including stock, for profit, non-stock and/or non-profit organizations) and persons which/who:

(1) are required to submit annual statutory FS to the BIR and/or SEC, and

(2) have annual gross sales/receipts/revenues of P10 Million and over, must have their FS prepared by a CPA who will have to submit the Certificate as to this fact.

Q9. What is included in the determination of the P10 Million or over threshold of gross sales/receipts/revenues reported in the FS that will subject said FS to these rules?

A9. These include all receipts or revenues/sales from all sources reported in the FS, including, but not limited to, gross receipts or revenues/sales from operations, non-recurring activities, passive income and others.

Q10. Would the employee CPA of a covered organization/person be required to be accredited with the BoA?

A10. Yes the employee CPA who be signing the Certificate must be accredited as a CPA in Commerce and Industry. This CPA employee is the employee designated by the management of the Company to be the person principally responsible for the compilation services for the preparation of the FS.

The names of all the covered organization(s)/person(s) should be indicated in the application form by the CPA applying for accreditation as a CPA in Commerce and Industry.

Q11. Would external CPAs or auditors providing these compilation services and signing the Certificates for covered organizations/person who hired them be required to be accredited with the BoA for this purpose?

A11. Yes, the external CPA or auditor should be accredited as a CPA in public practice. If the CPA or auditor has a current and valid accreditation as a CPA in public practice, said accreditation is sufficient to render these compilation services and sign the Certificate. These services should only be rendered to the NON AUDIT clients of the CPA or auditor.

Q12. Who should be accredited and allowed to sign the Certificates for the CPAs in public practice (as a sole practitioner, firm or partnership).

A12. All those signing the Certificates should be accredited as a CPA in public practice. These include the sole practitioners, every partner of a partnership who will be signing the Certificates and all other officers or staff in a partnership or firm who will be signing the Certificates.

This requirement is consistent with BoA Resolution No.295-2015 that requires all partners and CPA professional staff of accounting firms and partnerships to be accredited with the BoA.

Q13. Can the external auditor of the covered organization/person sign the Certificate for his/her client?

A13. The external auditor is not allowed to sign the Certificates of their audit clients.

Also, In the case of CPA partnerships or firms, all partners and/or CPA staff are not allowed to sign the Certificates of the partnership's/firm's covered audit clients, even if they are not involved in the audit of these clients.

Q14. I am a CPA employee of a covered organization/person with the responsibility of preparing the FS for my company. At the same time, I have a small CPA public practice for which I do various auditing and accountancy services, including compilation services for clients that exclude my employer organization. I have already an accreditation as a CPA in public practice. Am I allowed to continue to prepare the FS of my company and at to issue and sign the Certificate? For this, do I need to be accredited with the PRC/BoA?

A14. Yes, you can prepare the FS and sign the Certificate for your company.

For this, you should have a separate accreditation as a CPA in Commerce and Industry for your company.

Q15. My company is covered by this Resolution. My accountant, who is not a CPA, is the one preparing my FS? What should I do to comply with the requirement of the submission of the Certificate?

A15. You must engage an external accredited CPA or an authorized entity which can render the compilation service and sign the Certificate.

Alternatively, you can hire an accredited CPA to do the compilation service and sign the Certificate.

Q16. My company is covered by this Resolution. I am outsourcing the preparation of my FS to a Business Process Outsourcing (BPO) company or to any other company service provider? What should I do to comply with the requirement of the submission of the Certificate?

A16. You should ask your BPO or any other service provider to have its duly accredited CPA, who is principally responsible for the compilation service in the preparation of your FS to, sign the Certificate.

Q17. For the BPO or other service providers which renders compilation services for the preparation of FS to its client, what should it do to be accredited?

A17. It should have its CPA who would be doing the compilation services and signing the Certificates be accredited as a sole CPA practitioner in Public Practice.

Q18. If the one doing the accounting or compilation function of a covered organization or company is outsourced to a service provider outside the Philippines (for example, the Head Office, parent foreign company, a regional office, shared service provider, etc. located abroad), can the foreign service provider and/or its CPA be accredited and sign the Certificate?

A.18 Yes, the foreign based service provider can provide the compilation services.

However, it should do this through its Filipino CPA who will have be accredited as a CPA in (sole) public practice and who will sign the Certificate in that capacity.

Alternatively, the foreign service provider can apply for a Special Temporary Permit (STP) for its foreign CPA or equivalent to render the compilation services and to sign the Certificate. The procedures for applying for the STP are prescribed in PRC Resolution 2012- 668.

Q19. When does the Resolution take effect?

A19. The Resolution takes effect on February 8, 2016 which is 15 days from its publication on January 26, 2016 3-2016.

Q20. What are the FS and its accounting period(s) that are covered by this Resolution?

A20. Only the FS of the covered organizations/persons ending June 30, 2016 and subsequent periods are mandatorily covered and will require the submission of the Certificate. For the FS ending December 31, 2015 and subsequent periods ending May 30, 2016, the submission of the Certificate will be OPTIONAL and encouraged.

FS which end prior to December 31, 2015 are not covered by this Resolution.

Q.21 What are the procedures for the CPA to apply for accreditation as CPA in Commerce and Industry”

A21. The CPA applying for accreditation as CPA in Commerce and Industry should accomplish the appropriate BACC Form and submit the prescribed documents to the PRC Standards and Inspection Division in PRC Sampaloc and in any PRC regional office near the office address of the CPA applicant.

The prescribed documents for the application, the amount of fees to be paid and other details are in ANNEX C of Resolution 3-2016.

The different forms that will have to be accomplished, such as the revised BACC application forms, the Integrity Initiative Pledge form and the Affidavit of Undertaking (if CPD units are lacking) are available in the various PRC offices and/or downloadable from the BoA website boa.com.ph.

Q22. When should the application by the CPA be filed with PRC?

A22. For those CPAs who are required to submit the Certificate, the CPA should file the application not later than February 29, 2016.

For those CPAs who are hired by covered organizations/persons after the February 29, 2016 deadline, they should apply within a month after the date of their hiring.

For those CPAs who are employed by organizations/persons which/who are became covered for after February 29, 2016, the they should apply within one (1) month following the year/period the organization/person became covered.

Q23. Should the CPA personally file the application in the PRC?

A23. The CPA can authorize a duly designated representative to file the application documents.

Alternatively, the CPA can send by courier the application documents to PRC Standards and Inspection Division in P.Paredes Street cor. Morayta Street, Samplaoc 1008 Manila and advise boa.secretariat@gmail.com the date of receipt of PRC of the delivered application for monitoring purposes.

Q24. What is the Affidavit of Undertaking prescribed in Annex B of the resolution?

A24. This is the Affidavit that must be submitted together with the application IF the CPA applicant, at time of application, is not able to complete the required number of Continuing Professional Development (CPD) units of 60

hours over a three year period. With this Affidavit, the CPA applicant commits to complete the required CPD units by June 30, 2016 and to notify the PRC Standards and Inspection Division upon the completion of the CPD requirement.

Q25. What CPD units will be allowed or considered in the application for accreditation for CPA in Commerce and Industry?

A25. The CPD units that will be allowed are:

- (1) those earned pursuant to BoA Resolution 59-2012
- (2) those earned within three years from date of submission of application.

Example: A CPA filed his application for accreditation on March 15, 2016. The CPD units that can be considered for his application are the units earned since three years back from March 15, 2013 to March 15, 2016.

For applicants who have been previously accredited as CPA in public practice or as accounting teacher, the appropriate CPD units submitted for the earlier application can be considered for the application for CPA in Commerce and Industry that comply with the two requirements indicated above.

Q26. Has BOA coordinated with SEC and BIR regarding this BoA requirement of attachment of the Certificate in the annual statutory FS filed with the SEC and BIR?

A26. The BoA has advised the Department of Finance, Bureau of Internal Revenue and the Securities Exchange Commission on this new Resolution and requested the SEC and BIR to monitor the compliance of submission of the Certificate in the filing of the annual statutory FS in the BIR and SEC.

Q27. What is the difference between the Certificate and the Statement of Management Responsibility (SMR) required by the SEC?

A27. The Certificate is different from the SMR. First, the Certificate is prescribed by the BoA, while the SMR prescribed by the SEC.

Second, the objective of the submission of the Certificate is those indicated in A1 above, while the SMR has its own objectives.

The one signing the Certificate need not be the one signing the SMR. In fact, ordinarily it would be different individuals who would separately sign the Certificate and SMR. However, if any of the signatory in the Certificate and SMR is the same, said signatory to the Certificate should be a CPA and should be accredited with the BoA for this purpose.

Q28. How do we address situations where the FS of covered organizations/persons are to be issued before the PRC/BoA approval of the accreditation of the CPAs who will sign the Certificates?

A28. The FS can be issued with the Certificate that will be attached bearing the inscription “CPA accreditation filed on _____ still in process” in the Accreditation Number line.

However, the PRC and BoA will coordinate to fast track the processing and approval of the accreditation applications within two (2) weeks from date of application filing and submission of complete documentary requirements.

Q29. What is the validity of the accreditation of CPAs in Commerce and Industry?

A29. The accreditation shall be valid for three years, to include the year of application.

EXAMPLE: A CPA applied on March 15, 2016 and received his accreditation on March 29, 2016. The validity that will be indicated in the Certificate of Accreditation that will be issued to the CPA will be “**valid until December 31, 2018.**”

Q30. What are the sanctions that may be imposed for violations or non-compliance with the provisions of the Resolution? Who/which will be penalized, the CPA issuing the Certificate or the covered organization/person?

A30. Violations or non-compliance such as (1) a covered company filing its FS with the SEC and BIR without attaching the Certificate, (2) the application for accreditation of the CPA not being approved/denied because of oversight/negligence/failure to comply with the accreditation requirement **after the FS has been issued**; the auditor of an organization is the one doing the compilation services for the preparation of the FS and notes of his/her audit client; (4) and other cases, will result in sanctions that will be imposed on either the CPA, the covered organization/person, or both.

The sanctions that may be imposed by PRC/BoA can be:

- (1) reprimand of the CPA and/or covered organization/person
- (2) suspension of license of the CPA
- (3) imposition of fines and penalties on the CPA and/or covered organization/person,
- (4) Revocation of the license of the CPA, and/or,
- (5) Re-submission of a corrected or valid Certificate to replace the defective Certificate previously issued

Q31. How will the BoA monitor the compliance of the submission or attachment of the Certificate in the annual statutory FS submitted to the BIR and SEC?

A31. The BoA has requested the BIR and SEC to assist in monitoring the compliance of those submitting the annual statutory FS.

Furthermore, the BoA will soon prescribe a resolution that all external auditors should monitor the compliance of their audit clients who/which are covered by this resolution. In the monitoring, the external auditors should bring to the attention of the management of their audit clients any instance(s) of omissions or non-compliance with the provisions of the resolution