

IV. Accounting and Auditing Standards

This chapter describes the accounting and auditing standards that govern the preparation of external financial reports and the audit of those reports. It comprises 12 sections, as follows:

Part One: Accounting Standards

- 1 – Introduction – reviews the historical development of Philippine accounting standards.
- 2 – Accounting Standards Council (ASC) – outlines the role, composition, and activities of the ASC, which is the primary accounting standard setting body.
- 3 – Accounting Standard Setting Process – describes the accounting standard setting process.
- 4 – Statements of Financial Accounting Standards – describes Philippine accounting standards.
- 5 – Conformity with International Accounting Standards– examines differences between Philippine accounting standards and IASs.
- 6 – Public Sector Accounting Standards – discusses developments in public sector accounting standards.
- 7 – Taxation Reporting Requirements – reviews the impact of taxation requirements on financial reporting practices.

Part Two: Auditing Standards

- 8 – Introduction – describes the historical development of Philippine auditing standards.
- 9 – Auditing Standards and Practices Council (ASPC) – outlines the role, composition, and activities of the ASPC, which is the primary auditing standard setting body.
- 10 – Auditing Standards – describes Philippine auditing standards.
- 11 – Comparison with International Standards on Auditing – examines differences with International auditing pronouncements.
- 12 – Issue Synopsis: Accounting and Auditing Standards – summarizes the issues identified in this chapter.

Part One. Accounting Standards

1. Introduction

In 1949, PICPA began issuing accounting standards in the form of accounting bulletins—compliance was voluntary. In 1979, the PICPA

Committee on Accounting Research and Special Studies issued a report on the state of financial accounting standards and standard setting in the Philippines. The study revealed weaknesses including the recommendatory nature of standards, an absence of compliance monitoring, a lack of consultation outside the profession, and a tendency to rely too heavily on US standards.¹³⁸ In response to the study's recommendations, PICPA created the Accounting Standards Council (ASC) in November 1981 as an independent body to formalize the accounting standard-setting function.

The ASC issued the first Philippine Statement of Financial Accounting Standards (SFAS) in 1983. SFASs were based upon US accounting standards (as they existed in the 1970s) until 1996. At that time, the ASC decided to base SFASs on International Accounting Standards (IASs), rather than updating the standards in line with changes in the US standards which were considered too complex in the Philippine context.¹³⁹ A year later, in 1997, the ASC decided to move totally to IASs.

SFASs are initially formulated as Exposure Drafts (EDs). After an exposure period of around 6 months, the ASC submits the final draft to the Board of Accountancy (BOA) for consideration. Once approved by the BOA, the PRC's final concurrence gives legal authority to the SFAS and CPA compliance is mandatory.¹⁴⁰

2. Accounting Standards Council (ASC)

The ASC is a nongovernment body. The Council's main objectives and functions are to establish and approve accounting standards that will be generally accepted in the Philippines. These standards are generally based upon (i) existing Philippine practices, (ii) research or studies undertaken at the direction of the Council Chair, (iii) local and international literature, and (iv) promulgations of other standard setting bodies such as the International Accounting Standards Committee (IASC) and the US Financial Accounting Standards Board (FASB).¹⁴¹ ASC pronouncements apply to the financial statements of commercial, industrial

¹³⁸ Alindada, Carlos. 1982. *The Need for a Structured Standards-Setting Process*. Technical Paper No. 1. 36th PICPA Annual Convention, La Union. Philippines.

¹³⁹ World Bank. 1999. *Philippines: The Challenge of Economic Recovery*. Washington D.C.: World Bank. pp. 35-36.

¹⁴⁰ Calanog, Violeta, Eduardo Roca, and Violeta Vicente. 1997. Philippines. In Ma, Ronald (Ed.). 1997. *Financial Reporting in the Pacific Asia Region*. Singapore: World Scientific Publishing. p. 373.

¹⁴¹ Accounting Standards Council (ASC). 1999. *Compilation of Statements of Financial Accounting Standards Nos. 1 - 29*. pp. xi-xii.

or business enterprises—some may also apply to nonprofit organizations.

The Council comprises eight members (see Table 13) and is funded on a token basis by the PICPA Foundation. Members serve without compensation for a renewable term of 2 years. Research activities are supported by member bodies, predominantly the large accounting firms and government institutions. The Council's leadership has not changed since its inception and other membership changes have been minimal.¹⁴²

Table 13: Membership of the Accounting Standards Council

Organization	Members	Nomination and Appointment
Philippine Institute of Certified Public Accountants (PICPA)	4	Designated by the National Board of Directors. One of the PICPA board members will serve as Chair.
Securities and Exchange Commission (SEC)	1	Nominated by the Commissioner – should be an Associate Commissioner.
Central Bank of the Philippines (BSP)	1	Nominated by the Governor – should be a Deputy Governor.
Board of Accountancy (BOA)	1	Nominated by the PRC Chair upon the recommendation of the BOA Chair.
Financial Executives Institute of the Philippines (FINEX)	1	Nominated by the FINEX President – should be a vice president in own organization.

The approval of at least five Council members is required to issue an ED, SFAS, or an Interpretation.¹⁴³ PICPA has an effective majority on the Council through its four directly-appointed members together with the indirectly-appointed BOA member (see p. 50).

In May 2000, the ASC approved the formation of an Interpretations Committee whose responsibilities include the identification, discussion, and resolution of emerging issues affecting financial reporting and the adoption of interpretations that are related to the accounting standards already adopted by the ASC. The Committee was formally organized in

¹⁴² Manabat, Conchita L. 2000. *The Philippines Accountancy Profession and Globalization*. www.deloitteap.com

¹⁴³ Accounting Standards Council (ASC). 1999. *Compilation of Statements of Financial Accounting Standards Nos. 1 – 29*. p. xv.

October 2000 with members from accounting firms, academia, FINEX, and a member at large.

3. Accounting Standard Setting Process

The Council's mechanism for setting standards is similar to that of the IASB and FASB. First, a task force is established to prepare an Exposure Draft (ED) in a particular area. Second, the task force prepares the ED and submits it to the Council for consideration. Third, if approved by the Council, the ED is disseminated for comment to PICPA members, FINEX members, and other interested persons and business organizations. The exposure period must be at least 30 days, but is usually more than 60 days. Fourth, the task force evaluates comments and suggestions and recommends revisions to the Council. Fifth, if approved by the Council, the ED is issued as an SFAS. Sixth, the SFAS is submitted to the PRC and BOA for approval. Finally, the SFAS is disseminated to PICPA members, FINEX members, and other interested parties.¹⁴⁴

4. Statements of Financial Accounting Standards (SFASs)

Thirty-four SFASs were effective as of 31 January 2001 (see Table 14). With respect to the issuance of SFASs, four issues are worthy of attention. First, the IASC™ holds exclusive copyright over International Accounting Standards™. As such, the ASC has technically infringed Philippine law by using IASs as the basis for Philippine SFASs, without prior written permission. The ASC is not alone. It has some illustrious partners in crime including many other countries and the authors of this study.

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¹⁴⁴ Diga, Joselito. 1997. *Accounting in the Philippines*. Published in Baydoun, Nabil, Akira Nishimura and Roger Willet (eds). *Accounting in the Asia-Pacific Region*. Wiley. p. 201.

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– IASC Copyright and Trademark Notice (2001)¹⁴⁵

Second, IASs and IAS-related materials are highly priced – a copy of IAS 1 is available from the IASC for US\$48. This is cheap compared to IAS 39 at US\$71. In comparison, a full compilation of Philippine SFASs is available from the National Bookstore for P295 (US\$6). In moving to an IAS basis, there will be a requirement for IAS explanatory and training materials, every accountancy teacher and CPA should have access to these materials as a matter of course. IASC's pricing policy is inconsistent with its objectives. Moreover, it fails to recognize that the international community has funded the development of these materials (IASC's activities are financed by professional accountancy bodies and other organizations on its Board, by IFAC, and by contributions from companies, financial institutions, accounting firms, and other organizations).

Third, the ASC was initially ahead of the IASC—for instance, SFAS 1 was issued 6 years before the IASC issued its conceptual framework. However, the ASC now lags behind the IASC on the issuance of comparable standards.

Fourth, when new or revised SFASs are issued, consequential amendments have not been made to existing SFASs. In 1992, for example, SFAS No. 22: *Statement of Cash Flows* superseded SFAS No. 14: *Statement of Changes in Financial Position*. However, SFAS No. 19: *Summary of GAAP for the Banking Industry* still refers to the "Statement of Changes in Financial Position".¹⁴⁶

¹⁴⁵ Source: www.iasc.org.uk.

¹⁴⁶ Accounting Standards Council (ASC). 1999. *Compilation of Statements of Financial Accounting Standards Nos. 1–29*. pp. 387–388.

Table 14: Philippine SFASs as at 31 January 2001¹⁴⁷

No.	Title	Parentage	Approved	Effective
...	Framework for the Preparation and Presentation of Financial Statements	IAS Framework	2000	Jan 2001
1	Presentation of Financial Statements [Superseded SFAS 1: Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises, which reflected an APB Statement and was issued in 1983]	IAS 1	2000	Jan 2001
2	Summary of Generally Accepted Accounting Principles (GAAP) on Cash	US GAAP	1983	1983
3	Summary of GAAP on Receivables	US GAAP	1983	1983
4	Inventories [Superseded SFAS 4: Summary of GAAP on Inventories, which reflected US GAAP and was issued in 1983]	IAS 2	2000	Jan 2001
5	Summary of GAAP on Liabilities	US GAAP	1983	1983
6	Summary of GAAP on Property, Plant and Equipment (Carried at Historical Cost)	US GAAP	1983	1983
7	Contingencies and Subsequent Events	FASB 5	1983	1983
8	Accounting for the Effects of Changes in Foreign Exchange Rates	IAS 21	1984	1983
9	Summary of GAAP on Intangible Assets	APB 17	1984	1984
10	Summary of GAAP on Investments	FASB 12	1984	1984

¹⁴⁷ Sources:

- Accounting Standards Council (ASC). 1999. *Compilation of Statements of Financial Accounting Standards Nos. 1 – 29*.
- Board of Accountancy. 2001. *Accomplishment Report for 2000: Professional Regulation Commission*. p. 4.

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No.	Title	Parentage	Approved	Effective
11	The Equity Method of Accounting for Investments in Common Stock	APB 18	1984	1984
11A	Deferral of the Effective Date of SFAS 11, The Equity Method of Accounting for Investments in Common Stock	...	1986	1986
12	Revaluation of Property, Plant and Equipment Through Appraisal	...	1985	1985
13	Net Income or Loss for the Period, Fundamental Errors and Changes in Accounting Policies [Superseded SFAS 13: Reporting the Effects of Disposal of a Segment of a Business and of Extraordinary Items and Prior Period Adjustments on the Results of Operations of an Enterprise, which was based upon APB 30 and FASB 16, and was issued in 1985]	IAS 8	2000	Jan 2001
15	Disclosure of Accounting Policies	APB 22	1986	Sep 1986
16	Related Party Disclosures	FASB 57	1986	Jun 1987
17	Accounting Changes	APB 20	1987	Dec 1987
18	Summary of GAAP on Stockholder's Equity	US GAAP	1987	Dec 1987
19	Summary of GAAP for the Banking Industry	US GAAP	1987	Dec 1988
19A	Accounting for Investments in Debt and Marketable Securities of Banks (An amendment of SFAS No. 19)	FASB 115	2000	Oct 2001
20	Accounting for Business Combinations	APB Opinion No. 16 & IAS 22	1991	Jul 1991
21	Summary of GAAP on the Consolidation of Financial Statements	FASB Section C51 & IAS 3	1991	Jun 1991
22	Statement of Cash Flows	FASB No. 95	1992	Jun 1993

No.	Title	Parentage	Approved	Effective
23	Accounting for Income Taxes	FASB No. 109	1994	Jan 1995
24	Retirement Benefit Costs	IAS 19	1996	Dec 1997
25	Borrowing Costs	IAS 23	1996	Dec 1997
26	Construction Contracts	IAS 11	1996	Dec 1998
27	Accounting and Reporting for the Non-Life Insurance Industry	FASB 60 & FASB 113	1997	Dec 1998
28	Revenue	IAS 18	1997	Jan 1998
29	Earnings Per Share	IAS 33	1998	Jan 1998
30	Interim Financial Reporting	IAS 34	2000	Jan 2001
31	Segment Reporting	IAS 14	2000	Jan 2001

IAS = International Accounting Standard; APB = Accounting Principles Board; GAAP = generally accepted accounting principles; FASB = Financial Accounting Standards Board; SFAS = Statement of Financial Accounting Standard;

5. Conformity with International Accounting Standards

Until 1996, the ASC based most SFASs upon US accounting standards. Starting in 1996, the ASC issued IAS-based SFASs. Four considerations influenced this move. First, there was existing support for IASs by Philippine organizations: (i) The BOA supports IASC standards by its implementation of GATS with respect to accountancy services; and (ii) As a member organization of the IASC, PICPA is committed to supporting IASC's work and to using its best endeavors to foster compliance with IASs. Second, the increasing globalization of business and cross-border financing has heightened interest in a common language for financial reporting. More and more Philippine companies are now seeking capital abroad and going to countries other than the US, such as Hong Kong, China; Singapore; and Europe, where IASs have increasing acceptability. Third, the IASC completed a compatibility and improvements project, which was aimed at reducing accounting policy choices in IASs. Fourth, IASs are being increasingly recognized.¹⁴⁸

Consequently, the ASC is reviewing IASs to identify changes that may be required in current accounting and disclosure requirements. While existing ASC standards are broadly consistent with their equiva-

¹⁴⁸ Narayan, Francis B., Ted Godden, Barry Reid, and Maria Rosa Ortega. 2000. *Financial Management and Governance Issues in Selected Developing Member Countries: A Study of Cambodia, People's Republic of China, Mongolia, Pakistan, Papua New Guinea, Uzbekistan, and Viet Nam*. ADB. pp. 18-24.

lent IASs, there are differences in detailed accounting and disclosure requirements. Subject to any modifications that may be required by Philippine regulatory requirements or deemed necessary by the ASC, the final ASC standards will be the same IASs.

The close conformity of Philippine accounting standards with IAS is not surprising, given the IAS and US GAAP influence over their development. However, a recent study identified three sources of difference.^{149, 150} First, Philippine accounting may differ from that required by IAS because of the **absence of specific Philippine rules** in the following areas:

- the setting up of provisions in the context of business combinations accounted for as acquisitions IAS 22.31
- impairment of assets IAS 36
- treatment of research and development costs IAS 38.42–38.45
- accounting for leases IAS 17
- accounting for employee benefits other than pensions IAS 19.52
- the discounting of provisions IAS 37.45
- accounting for an issuer's financial instruments IAS 32.18–32.23
- the requirement for annual impairment tests when the depreciable lives of goodwill or intangible assets exceed 20 years IAS 22.56; IAS 38.99

Second, there are **no specific Philippine rules requiring disclosures of:**

- the fair value of financial assets and liabilities IAS 32.77

¹⁴⁹ Source: Nobes, Christopher W. (Ed.). 2001. *GAAP 2000: A Survey of National Accounting Rules in 53 Countries*: PriceWaterhouseCoopers.

¹⁵⁰ The following information has been updated for recent Philippine issuances, including: SFAS No. 31 *Segment Reporting*. However, it does not reflect recent IAS issuances, which include: IAS 39 *Financial Instruments: Recognition and Measurement*; IAS 40 *Investment Property*; and IAS 41 *Agriculture*.

Third, there are inconsistencies between Philippine and IAS rules that could lead to differences for many enterprises in certain areas. Under Philippine rules:

- pre-operating costs, set-up costs and legal costs of a new company can be capitalized if there are no discernible future benefits IAS 38.57
- tangible fixed assets can be revalued but do not need to be continually kept up-to-date (An IAS 16-based ED will be issued soon) IAS 16
- directors set provisions on the basis of probability of outflows of resources, rather than there needing to be an obligation IAS 37.14
- pension obligation calculations can use a choice of actuarial methods, and generally use a long-run discount rate IAS 19.64–19.78
- past service costs must be amortized even if they are vested IAS 19.96

IASs are often criticized for allowing financial statement preparers significant latitude in accounting policy choices. The preceding analysis did not highlight that, in some cases, Philippine SFASs offer more choices than IASs. For instance, when revaluing assets, SFASs allow three additional alternatives of treating revaluation surpluses.¹⁵¹

6. Public Sector Accounting Standards

In 1996, the Public Sector Committee (PSC) of IFAC initiated a project to prepare a set of International Public Sector Accounting Standards (IPSASs). The benefits of improved governmental financial reporting and the corresponding improvement in transparency were recognized by international and regional organizations, including ADB, World Bank, IMF, and UNDP, all of which provided funding for the public sector accounting standards project.

¹⁵¹ Fajardo, Consolacion L. March 2000. Revaluation of Property, Plant and Equipment: A Comparison between IASC and ASC Standards. *Accounting Times*. 52(2). pp. 16–18.

On 24 May 2000, IFAC formally released the first eight IPSASs. The standards are the first set of accounting standards applicable to public sector reporting and are intended to meet the needs of governments, ministers, taxpayers, and credit-rating agencies. The standards apply to all levels of government and will provide governments with a platform on which to base improvements in their financial management and reporting practices. Further IPSASs are currently being developed. The PSC recognizes that many governments may not yet be in a position to adopt the accrual-based IPSASs. To assist these governments, the PSC has also developed an exposure draft, ED-9 *Financial Reporting under the Cash Basis of Accounting*. ED-9 sets out the requirements for the presentation of the primary financial statement under the cash basis of accounting, as well as the statement's structure and minimum content requirements. The requirements that are likely to emerge in this standard should lead to transparency where governments remain on the cash basis of reporting.

7. Taxation Reporting Requirements

The Bureau of Internal Revenue (BIR) implements the National Internal Revenue Code (NIRC), which requires corporations, partnerships, or persons whose gross quarterly sales, earnings, receipts, or output exceed P150,000 to submit audited financial statements to the BIR.¹⁵² Philippine enterprises are not required to adopt tax rules for financial accounting purposes, for instance, Section 43 of the *Tax Code* 1997 provides that "taxable income shall be computed ... in accordance with the method of accounting regularly employed in keeping the [taxpayer's] books."

Most enterprises, however, adopt the prescribed tax reporting guidelines for expediency so long as such practices do not contravene prescribed accounting standards. For example, businesses usually use an allowable inventory valuation method (e.g., FIFO) or adopt depreciation rates prescribed by the tax authorities for certain fixed asset types. Tax laws only indirectly affect financial accounting by predisposing companies to adopt methods that satisfy both financial and tax reporting requirements.¹⁵³ Furthermore, in the absence of a specific SFAS or tax rul-

¹⁵² Bureau of Internal Revenue. 1999. National Internal Revenue Code. Section 232(A). Title X: Compliance Requirements.

¹⁵³ Diga, Joselito. 1997. Accounting in the Philippines. Published in Baydoun, Nabil, Akira Nishimura and Roger Willet (Eds). *Accounting in the Asia-Pacific Region*. Wiley. p. 204.

ing, the BIR will refer to authoritative accounting sources, such as IASs.¹⁵⁴

Part Two. Auditing Standards

8. Introduction

As has already been described for accounting standards, PICPA used to issue auditing guidance in the form of bulletins. In 1979, the same PICPA committee that influenced the establishment of the ASC also influenced the establishment of the Auditing Standards and Practices Council (ASPC). In response to the study's recommendations, PICPA and the Association of CPAs in Public Practice (ACPAPP) established the ASPC in 1986.¹⁵⁵

The ASPC promulgates the *Statements of Auditing Standards of the Philippines* (SASPs) and other guidance on auditing practices and procedures. SASPs are significantly influenced by US auditing standards and the pronouncements of IFAC's International Auditing Practices Committee (IAPC).¹⁵⁶ All ASPC-approved SASPs are submitted to the PRC through the BOA and, once approved, CPA compliance is mandatory.¹⁵⁷

9. Auditing Standards and Practices Council (ASPC)

The ASPC is a nongovernment body. It is responsible for promulgating auditing standards, practices and procedures that shall be generally accepted in the Philippines. These standards are generally based upon: (i) existing Philippine standards; (ii) research or studies undertaken at the direction of the Council Chair; and (iii) promulgations of other standard setting bodies such as the AICPA, IAPC and The American Finance Association (AFA).¹⁵⁸

The Council comprises 17 members (see Table 15) and is funded on a token basis by the PICPA Foundation. Members serve without compensation for a minimum term of 3 years. The Council's leadership has

¹⁵⁴ See, for instance, Bureau of Internal Revenue (BIR). Ruling 003-2000 (Income Tax Accounting: Lease Rentals). 2000 October. *The Revenue Report*. Vol RR 00-10. pp. 58-60.

¹⁵⁵ Auditing Standards and Practices Council (ASPC). 1996. *Compilation of Statements of Auditing Standards of the Philippines*. ASPC. p. ix.

¹⁵⁶ Favere-Marchesi, Michael. 2000. Audit Quality in ASEAN. *The International Journal of Accounting*. Vol 35(1). pp. 121-149.

¹⁵⁷ Auditing Standards and Practices Council (ASPC). 1996. *Compilation of Statements of Auditing Standards of the Philippines*. ASPC. p. xiv.

¹⁵⁸ Ibid. p. ix.

changed once since its inception and other membership changes have been minimal. The Council was inactive for several years¹⁵⁹ but resumed activities in 2001 with a new Chairperson.

Table 15: Membership of the Auditing Standards and Practices Council

Organization	Members	Nomination and Appointment
Independent Auditing Firms	7	Nominated by firms' respective managing partners or Chairs. One serves as Chair.
Philippine Institute of Certified Public Accountants (PICPA)	5	One representative from academia, and one from commerce and industry. One public practice representative from each of Luzon, Visayas, and Mindanao.
Association of CPAs in Public Practice (ACPAPP)	2	...
Board of Accountancy (BOA)	1	Nominated by the PRC Chair upon the recommendation of the BOA Chair.
Securities and Exchange Commission (SEC)	1	Nominated by the SEC Chair.
Commission on Audit (COA)	1	Nominated by the COA Chair.

The approval of a majority of Council members is required to issue an ED, or SASP. As such, auditing firms have an effective working majority.

10. Auditing Standards

Sixteen SASPs were effective as of 31 January 3001 (see Table 16). In addition, the rejuvenated Council had approved three new SASPs for issuance.

¹⁵⁹ Manabat, Conchita L. 2000. *The Philippines Accountancy Profession and Globalization*. www.deloitteap.com

Table 16: Philippine SASPs as at 31 January 2001¹⁶⁰

No.	Title	Approved
1	The Objectives, Scope and Responsibilities of an Independent Auditor in Undertaking an Audit	1987
2	Generally Accepted Auditing Standards	1987
3	Audit Engagement Letters	1987
4	Client Representations	1987
5	Superseded	...
6	Study & Evaluation of the Accounting Systems & Related Internal Controls in Connection with an Audit	1988
7	Audit Evidence & Documentation	1988
8	Control of Quality of Audit Work	1989
9	Planning & Supervision	1990
10	Audit Sampling	1991
11	Procedures to be Followed in the Review of Client Income, Withholding & Value Added Tax Returns	1991
12	Fraud and Error	1991
...	Audit Manual for Commercial Banks	1990
13	Auditing in an EDP Environment	1994
14	Independent Auditor's Report on Audited Financial Statement	1994
15	The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern	1994

11. Comparison with International Standards on Auditing

The International Auditing and Assurance Standards Board (IAASB) works to improve the uniformity of auditing practices by issuing pronouncements on auditing issues and promoting their acceptance. Its key pronouncements are International Standards on Auditing (ISAs) and International Auditing Practice Statements (IAPs). The list of ISAs and IAPs that were effective at 30 September 2000 is provided as Appendix 8.

National standards on auditing and related services that have been published in many countries differ in form and content. The IAPC recognizes these documents and differences and, in the light of this knowledge, issues ISAs which are intended for international acceptance. ISAs

¹⁶⁰ Auditing Standards and Practices Council (ASPC). 1996. *Compilation of Statements of Auditing Standards of the Philippines*. ASPC.

are to be applied in the audit of financial statements. ISAs are also to be applied, adapted as necessary, to the audit of other information and to related services. These standards outline basic responsibilities for auditors, help them cope with increased and changing demands for financial statement information, and provide guidance in specialized areas, such as auditing computer information systems. They are codified and available in a bound volume or through an electronic subscription service. IAPSS provide practical assistance to auditors in implementing the standards or on related subjects and promote good practice. These statements are not intended to have the authority of standards.

Two issues warrant attention with regard to Philippine Auditing Standards. First, though recently rejuvenated under a new Chairperson, the ASPC was largely inactive for several years (p. 94). Consequently, the issuance of Philippine audit standards is significantly behind the pronouncements of the IAPC. Second, it has been contended that auditors claim protection based upon the wording on SASP 12 *Fraud and Error* (SASP 12 is the same as ISA 240), which states that auditors are “entitled to accept [management] representations as truthful and records and documents as genuine.”

“Big auditing firms always have a “scapegoat” in case the audited financial statements contain misstatements. They can always resort to the paragraph in the auditor’s statement where it is written that the auditing company certifies only as far as the information given to them—that they are not responsible in case management had internal problems.”

– Former PRC Commissioner (1998)¹⁶¹

Nevertheless, in response to this study’s recommendations, the ASPC will complete full adoption of IAASB pronouncements by 2005.

12. Issue Synopsis: Accounting and Auditing Standards

Chapter VIII – *Issues and Recommendations* – identifies and describes constraints and proposes corrective actions. These include the following issues regarding Philippine accounting and auditing standards:

- Accounting standards should be established for the benefit of financial statement users, but the accountancy profession—pre-

¹⁶¹ Cited in: Dyball, Maria Cadiz and Lina J. Valcarcel. 1999. The “Rational” and “Traditional”: the Regulation of Accounting in the Philippines. *Accounting, Auditing and Accountability Journal*. Vol 12(3). pp. 303–327.

dominantly comprising financial statement preparers—has an effective majority on the ASC Board.

- The IASC's copyright and high-pricing policies have the potential to discourage the adoption of IASs; particularly in developing countries. In doing so, these policies appear to be at odds with the Committee's constitutional objectives of (i) developing, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions; (ii) promoting the use and rigorous application of those standards; and (iii) bringing about convergence of national accounting standards and IASs to high quality solutions.
- Philippine accounting standards are in transition from the US basis to an IAS basis. While in this transition period, Philippine SFASs do not have the wide coverage of IASs and, in some cases, are internally inconsistent (for instance, Cash Flow Statements have replaced Funds Statements, but some SFASs continue to make reference to Funds Statements).
- In some cases, Philippine SFASs offer financial statement preparers a wide range of accounting policy choices. In doing so, they reduce the usefulness of financial statements by limiting comparability.
- Auditing firm representatives arguably have an effective majority on the ASPC Board. This is inadvisable, at least from a public choice perspective, as auditing firms might be expected to minimize their exposure to legal liability.
- The ASPC has been inactive for several years during which time Philippine SASPs (auditing standards) have fallen significantly behind the pronouncements of IFAC's IAPC. However, the ASPC has recently been rejuvenated under a new Chairperson.
- It has been contended that auditors are able to claim protection from liability using SASP 12 *Fraud and Error*.