Diagnostic Study of Accounting and Auditing Practices

The Philippines
Preface

This report describes Philippine accounting and auditing arrangements, identifies deficiencies in those arrangements, and presents recommendations to address the deficiencies. It is part of the Asian Development Bank (ADB) series of country Diagnostic Studies of Accounting and Auditing (DSAA). In 2000, DSAA were completed and published for Cambodia, Mongolia, Pakistan, Papua New Guinea, People's Republic of China, Uzbekistan and Viet Nam. In 2001-2002, DSAA were prepared for Azerbaijan, Fiji Islands, Marshall Islands, Philippines and Sri Lanka.

The report was prepared for ADB by Barry Reid (Consultant) with overall guidance from R. Narasimham (Senior Portfolio Management Specialist, ADB), under Regional Technical Assistance 5765 — Banking, Capital Market and International Competitiveness Reforms in Response to the Currency Turmoil. Maria Rita Castillo provided strong research assistance; Aileen Aguilar and Yvonne Osonia provided excellent administrative support.

The draft report was discussed and debated with representatives from government, the private sector, and international organizations at a workshop held at ADB Headquarters in Manila on 12–13 March 2001. It was updated in June 2001 following further discussions with the Auditing Standards and Practices Council (ASPC), Board of Accountancy (BOA), Philippine Institute of Certified Public Accountants (PICPA), Professional Regulation Commission (PRC), Securities and Exchange Commission (SEC) and the World Bank.

This study coincided, and was coordinated, with a World Bank review of Philippine Corporate Sector Accounting and Auditing Practices. The World Bank review is part of the ROSC (Reports on the Observance of Standards and Codes) exercise. In terms of timing and coordination, the draft ADB DSAA report was completed prior to commencement of the World Bank review and copies were provided to Paul Bermingham (Chair, Financial Management Committee), Abelardo Dumondon (ROSC consultant), Zubaidur Rahman (ROSC consultant), Joseph Reyes (Operations Officer, Financial Management, World Bank Office Manila) and Selina Shum (Senior Financial Specialist). Furthermore, Joseph Reyes and Abelardo Dumondon attended the Manila workshop at which the draft DSAA report was discussed and debated, and Francis B. Narayan and Barry Reid attended workshops in relation to the World Bank review during June 2001. Not surprisingly, the two country action plans are consistent.

The country action plan presented in this report was discussed with representatives from the government and the accountancy profes-
sion during March–May 2001. These discussions identified and agreed policy actions that were included in an ADB loan for development of Philippine non-bank financial governance. An associated technical assistance grant is supporting the implementation of several of the recommendations presented in this report.

The study results and recommendations were further discussed and debated at an international workshop at ADB headquarters in Manila on 5–6 March 2002, after which the report was finalized. The report was updated in early 2003 under TA 5980-REG Diagnostic Study of Accounting and Auditing in Selected Developing Member Countries so that it could be provided together with the other TA 5980-REG reports.

The authors would like to offer their appreciation to the numerous officials, researchers and agencies that gave their valuable time and made materials available during the course of the research. We would particularly like to thank Antonieta Fortuna-Ibe (Chair, Philippine PRC), Carlito Fuentespina (President, PICPA), Tito S. Nabua (Director, Region IV, Philippine Commission on Audit), Purita A. Fajilan (Consultant, SEC) for their attendance and presentations at the Manila international workshop; and Richard Ondrik (Senior Programs Officer, Philippines Country Office, ADB) for chairing the session on Country Presentation: Philippines at the Manila international workshop.

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**Currency Equivalents**

(as at 31 March 2002)

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**Abbreviations**

- **ACPACI** Association of Certified Public Accountants in Commerce and Industry
- **ACPAS** Association of Certified Public Accountants in Education
- **ACPAPP** Association of Certified Public Accountants in Public Practice
- **ADB** Asian Development Bank
- **AGIA** Association of Government Internal Auditors
- **APEC** Asia Pacific Economic Council
- **APO** accredited professional organization
- **ASEAN** Association of Southeast Asian Nations
- **ASC** Accounting Standards Council
- **ASPC** Auditing Standards and Practices Council
- **BIR** Bureau of Internal Revenue
- **BOA** Board of Accountancy
- **BSP** Bangko Sentral ng Pilipinas (Central Bank of the Philippines)
- **BTr** Bureau of the Treasury
- **CAPA** Confederation of Asian and Pacific Accountants
- **CFAA** Country Financial Accountability Assessment (World Bank)
- **COA** Commission on Audit
- **CHED** Commission on Higher Education
- **CPA** certified public accountant
- **CPE** continuing professional education
- **DBM** Department of Budget and Management
- **DMC** developing member country
- **DOF** Department of Finance
- **DSAA** Diagnostic Study of Accounting and Auditing
- **ED** Exposure Draft
- **FINEX** Financial Executives Institute of the Philippines
- **GACPA** Government Association of Certified Public Accountants
- **GATS** General Agreement on Trade in Services
- **GDP** gross domestic product
- **GOCC** government owned and controlled corporation
- **IAPC** International Auditing Practices Committee
- **IAPS** International Auditing Practice Statement
- **IAS** International Accounting Standard
vi
IASB International Accounting Standards Board (formerly IASC)
IASC International Accounting Standards Committee
IEG International Education Guideline
IES International Education Standard
IFAC International Federation of Accountants
IIA Institute of Internal Auditors
IMF International Monetary Fund
INTOSAI International Organization of Supreme Audit Institutions
IOSCO International Organization of Securities Commissions
IPSAS International Public Sector Accounting Standard
ISA International Standards on Auditing
JBIC Japan Bank for International Cooperation
JICA Japan International Cooperation Agency
LGU local government unit
MTPDP Medium-Term Philippines Development Plan
NEDA National Economic and Development Authority
NIRC National Internal Revenue Code
OECD Organisation for Economic Co-operation and Development
PICPA Philippine Institute of Certified Public Accountants
PRB Professional Regulatory Board
PRC Professional Regulation Commission
PSC public sector committee
RETA regional technical assistance
ROSC Report on the Observance of Standards and Codes
                                          (IMF/World Bank)
SAI Supreme Audit Institution
SASP Statement of Auditing Standards of the Philippines
SEC Securities and Exchange Commission
SFAS Statement of Financial Accounting Standard
SOE state-owned enterprise
TA technical assistance
UNCTAD United Nations Conference on Trade and Development
UNDP United Nations Development Programme
US United States
USAID United States Agency for International Development
WTO World Trade Organization

Notes
(i) The fiscal year of the Government ends on 31 December.
(ii) In this report, “$” refers to US dollars.
(iii) “Korea” refers to the Republic of Korea.
Contents

EXECUTIVE SUMMARY ........................................................................................................ 1

I. INTRODUCTION ........................................................................................................... 15
  1. Study Background .................................................................................................... 15
  2. Study Objectives .................................................................................................... 16
  3. Country Case Study and Workshop ..................................................................... 16
  4. ADB Focus on Philippine Financial Governance .............................................. 17
  5. The Philippines ....................................................................................................... 18
  7. Report Structure .................................................................................................... 26

II. ACCOUNTING AND AUDITING IN THE PHILIPPINES .............................................. 29
  Part One. Accounting ................................................................................................. 30
    1. Introduction .......................................................................................................... 30
    2. The “Philippine Accounting System” .................................................................. 31
    3. Financial Reporting and Disclosure Requirements ......................................... 33
    4. Quality of Financial Reporting ............................................................................ 35
  Part Two. Auditing ....................................................................................................... 37
    5. Governing Laws and Regulations ...................................................................... 37
    6. Philippine Auditing Practices ............................................................................. 37
    7. Public Accounting and Auditing Firms ................................................................ 42
    8. Issue Synopsis: Accounting and Auditing .......................................................... 42

III. PROFESSIONAL INFRASTRUCTURE ............................................................................. 45
  1. Introduction .......................................................................................................... 46
  2. Professional Organization and Regulation ............................................................ 47
  3. The Certified Public Accountant (CPA) License .................................................... 52
  4. Professional Ethics .................................................................................................. 59
  5. Quality Control and Assurance ............................................................................. 63
  6. Philippine Institute of Certified Public Accountants ............................................ 66
  7. Other Professional Bodies ...................................................................................... 69
  8. Relations between the Profession and the BIR ..................................................... 74
  9. Globalization and Liberalization Challenges ....................................................... 75
  10. Initiatives to Strengthen the Profession ................................................................. 80
  11. Issue Synopsis: Professional Infrastructure ........................................................ 80

IV. ACCOUNTING AND AUDITING STANDARDS .................................................................. 83
  Part One. Accounting Standards .............................................................................. 83
    1. Introduction .......................................................................................................... 83
    2. Accounting Standards Council (ASC) ................................................................. 84
    3. Accounting Standard Setting Process .................................................................... 86
    4. Statements of Financial Accounting Standards (SFASs) .................................... 86
    5. Conformity with International Accounting Standards ....................................... 90
6. Public Sector Accounting Standards .............................................. 92
7. Taxation Reporting Requirements .................................................. 93

Part Two. Auditing Standards .......................................................... 94
8. Introduction ...................................................................................... 94
9. Auditing Standards and Practices Council (ASPC) ......................... 94
10. Auditing Standards ......................................................................... 95
11. Comparison with International Standards on Auditing ................. 96
12. Issue Synopsis: Accounting and Auditing Standards ................... 97

V. ACCOUNTING AND AUDITING TRAINING ........................................... 99
1. Introduction ...................................................................................... 99
2. Educational Coordination ............................................................... 100
3. Curriculum ....................................................................................... 100
4. Education and Training Institutions .............................................. 102
5. Training for Lecturers and Professors ............................................ 102
6. Issue Synopsis: Accounting and Auditing Education and Training .. 103

VI. GOVERNMENT BUDGETING AND ACCOUNTING ................................. 105
1. Introduction ...................................................................................... 106
2. Legal Framework for Government Accounting ............................. 107
3. Organizational Roles and Responsibilities .................................... 108
4. Budgeting and Reporting Calendar .............................................. 110
5. Accounting and Reporting Arrangements .................................... 111
6. Accounting Information Systems .................................................. 113
7. Internal Auditing ............................................................................. 113
8. Government Accounting Personnel ............................................. 114
10. Anticorruption Measures ............................................................... 117
11. Issue Synopsis: Government Budgeting and Accounting .......... 118

VII. DONOR ASSISTANCE ........................................................................ 119
1. Overview ......................................................................................... 119
2. Coordination Mechanisms .............................................................. 120
3. Asian Development Bank (ADB) .................................................. 120
4. The World Bank ............................................................................. 122
5. United Nations Development Programme (UNDP) ....................... 123
6. Canada (CIDA) .............................................................................. 124
7. Japan .............................................................................................. 124
8. United Kingdom (British Council) ................................................ 125
9. United States (USAID) ................................................................. 125

VIII. ISSUES AND RECOMMENDATIONS .................................................. 127
Part One. Where Donor Assistance Might be Appropriate ............... 129
1. Advocate Changes to IASB Copyright and Pricing Policies ....... 129
2. Directly Adopt International Accounting Standards ..................129
3. Alter Accounting Standard Setting Arrangements ...................130
5. Directly Adopt IAASB Auditing Pronouncements ...................132
7. Amend the Accountancy Law so that Licensure Standards can be Raised .................................................................132
8. Address CPA Licensure Examination Issues ...........................133
9. Introduce an Experience Prerequisite for the CPA Title ..........134
10. Introduce Mandatory Continuing Professional Education ....134
11. Reassign Responsibilities for Monitoring and Investigating Certain Ethical Matters .....................................................135
12. Implement Quality Control and Assurance Arrangements ....135
13. Introduce Provisional CPA Title .............................................136
14. Introduce Accounting Technician Membership Category ....136
15. Develop Annual Financial Management Scorecard ...............136
16. Improve Monitoring of Accountancy Courses .......................137
17. Provide Continuing Training to Professors and Lecturers ....137
18. Define Accounting Information System Requirements ..........137
Part Two. Where External Assistance is Not Required .................137
19. Directly Adopt IFAC Pronouncements on Ethics ...................137
20. Make PICPA Membership Compulsory for CPAs .................138
21. Minimize Compliance (Transaction) and VFM Auditing .......138
22. Limit Proxy Voting in PICPA Meetings and Elections ..........139
23. Exempt CPAs from Tax Agent Accreditation .......................139
24. Limit Accountancy Degree Courses to 4 Years .................139
25. Separate Accounting and Auditing Responsibilities ............139
26. Adopt International Public Sector Accounting Standards ....140

IX. COUNTRY ACTION PLAN .................................................................141

REFERENCES .......................................................................................147
# Appendixes

Table of Appendixes........................................................................................................157
Appendix 1. Useful Internet Sites....................................................................................158
Appendix 2. Interviewees...............................................................................................161
Appendix 3. Study Information......................................................................................163
Appendix 4. Comments on Draft Report.........................................................................165
Appendix 5. Workshop Attendees – March 2001.........................................................166
Appendix 6. International Accounting Standards.......................................................168
Appendix 7. IASB Work Plan .........................................................................................169
Appendix 8. International Standards on Auditing.........................................................171
Appendix 10. PICPA Committees..................................................................................177
Appendix 11. Restrictiveness Indexes for Accountancy Services.................................179
Appendix 12. Extracts from PICPA’s Amended Bylaws...............................................181
Appendix 13. Extracts from the Securities Regulation Code.........................................186
Appendix 14. Illustrative Financial Management Scorecard.......................................192
Executive Summary

Background

Around 80 million people live in the Republic of the Philippines—12 million of these reside in the capital Manila. Ethnicity is diverse with people of Chinese, Malay and Spanish descent; more than half the population is aged less than 20 years.

Foreign powers governed the Philippines for almost 4 centuries up until independence in 1946. The country has had a rocky ride since then. In 1972, President Ferdinand Marcos declared martial law, ostensibly in response to growing unrest, prevalent corruption and high crime levels. Changes were noticeable as crime decreased and public health services improved. But dissatisfaction grew with the dictatorial regime and a nonviolent campaign of civil unrest and national protest culminated with Marcos’s exile in February 1986. The Supreme Court and a democratic parliament were subsequently reestablished.

Following economic and financial crises in the late 1980s and early 1990s, the Philippines launched a robust economic reform program—including improved debt management, trade liberalization, privatization, deregulation and financial reforms—that contributed to declining public sector deficits, accelerating growth and rising capital inflows after 1992. By 1996, real GNP was growing at 6.9% and poverty had been significantly reduced.

The Philippine economy was among the first to be hit by the Asian financial crisis. The initial symptoms were similar to those in Indonesia, Korea, Malaysia and Thailand and included a loss in investor confidence resulting in large capital outflows, a decline in reserves, stock market collapses and a large currency depreciation. However, the Philippines weathered the crisis relatively well. There was no need for the Government to recapitalize private banks and most large corporations remained solvent. This has been attributed to: (i) relatively sound precrisis capital positions and portfolio quality among banks; (ii) a relatively strong banking regulatory and supervisory framework due to reforms after the 1980s banking crisis; (iii) low debt-equity ratios—by regional standards—in the corporate sector; (iv) less overheated real estate markets; and (v) strong export growth and remittance flows.

Joseph Estrada was elected president in 1998. However, the Japanese economic deterioration combined with uncertainties over the Estrada administration’s policies, caused a new downturn that culminated in the September 1998 emerging market crisis. Financial markets
subsequently recovered with equity prices up twofold, peso appreciation, a large increase in official reserves and significant declines in interest rates. But, President Estrada, amidst political turmoil in January 2001, was forced out of office. The administration of President Gloria Macapagal Arroyo has professed commitment to economic reform. In the meantime, the Philippines slipped from being one of East Asia’s richest countries at independence to one of its poorest today.

Challenges and Responses

Policies pursued over the past decade have had major positive results, but events over the past 4 years highlight that much remains to be done. The task is to restore the growth momentum and investor confidence of the mid-1990s through policies that prevent a return to boom-and-bust cycles.

Against this background, two imperatives are to deal with the still quite pervasive legacy of the past, such as low savings rates, widespread poverty, accommodation of rent-seeking activities (e.g., graft and corruption), and a weak public sector; and to successfully manage the challenges of globalization, allowing the country to realize the integration benefits while minimizing the associated risks of excessive leverage, currency overvaluation and sudden capital flow reversals.

In particular, this agenda includes (i) maintaining prudent macroeconomic policies, with emphasis on avoiding fundamental inconsistencies that risk disruptive shifts in capital flows; (ii) raising domestic savings and investment from the current unsustainable low levels; (iii) further leveling the playing field through domestic and external liberalization, as well as effective programs to assist the poor and to enhance the opportunities for the disadvantaged; (iv) streamlining and strengthening the public sector—the traditional economic ‘Achilles heel’; (v) further strengthening prudential, supervisory, and debt resolution frameworks in the financial and corporate sectors (including prudential-based management of foreign currency risk); (vi) accelerating rural development through agricultural modernization and by encouraging the growth of small- and medium-sized enterprises in the countryside; and (vii) improving further the investment climate, including by strengthening governance.

In 1999, the Government released the Medium-Term Philippine Development Plan 1999–2004, which presents initiatives to address structural economic constraints. It envisages a recovery of growth, and poverty being reduced from 32 % in 1997 to 25–28 % in 2004. Fur-
thermore, President Macapagal-Arroyo has stated that her administration is looking at ways that government can address the concerns of portfolio and direct investors and is committed to reforms that will restore confidence in the country.

Whatever the case, foreign direct investment (FDI) levels have fallen substantially in the past 4 years. The world economic slowdown is reinforcing this trend. Among a menu of options to make the Philippines a more attractive destination for FDI, one of the more effective choices is to adopt best-practice accounting and auditing standards, and to ensure that these standards are rigorously applied and enforced.

**Accounting and Auditing in the Philippines**

The Philippine accounting and auditing system is directly influenced by US and, more recently, international arrangements and practices. The *Accountancy Act 1923* created the Board of Accountancy (BOA) and gave it the authority to issue certified public accountant (CPA) certificates. Six years later, the Philippine Institute of Certified Public Accountants (PICPA) was established within the private sector to represent professional interests.

Many of the larger Philippine companies were subsidiaries or branches of American companies and their accounting reflected United States (US) practices. Even after independence in 1946, the US maintained close trade and investment links. Philippine accounting and auditing moved away from US influences towards international practices in the 1990s. For instance, the International Accounting Standard became the basis for Philippine accounting standards in 1996.

Today’s governing legislative and institutional framework is comprehensive. In common with the US model, arrangements reflect a mixture of government intervention and self-regulation. The key legislative planks of the Philippine accounting and auditing system are the *Revised Accountancy Law (No. 692) 1975*, the *Corporation Code*, the *Revised Securities Act 2000*, and the *National Internal Revenue Code 1999*.

The *Revised Accountancy Law 1975* governs the standardization of accounting education, stipulates the examination process for CPA registration, and regulates the practice of accountancy. The Professional Regulation Commission (PRC), through the BOA, administers the law. The SEC enforces the *Corporation Code*, which governs the creation and operations of limited liability corporations. The SEC also administers the *Revised Securities Act 2000*, which applies to companies listed on the Philippine Stock Exchange. Among other things, the *National Internal
Revenue Code 1999 requires that tax agents (including CPAs) be accredited by the Bureau of Internal Revenue (BIR).

Financial reporting disclosure requirements are governed by both mandatory and advisory sources. Mandatory sources include (i) the legal requirements in the National Internal Revenue Code 1999; (ii) Statements of Financial Accounting Standards (SFASs) issued by Accounting Standards Council (ASC); and (iii) rules and regulations issued by the SEC governing the form and content of financial statements. The Bangko Sentral ng Pilipinas (Central Bank of the Philippines) prescribes disclosures for financial institutions. All companies with quarterly sales exceeding P100,000 ($2,000) must have their financial statements audited and signed by a CPA. SEC rules require listed companies to file quarterly reports within 45 days of the quarter-end.

Assessments of financial reporting quality vary. On one hand, a World Bank review of Philippine financial reporting practices favorably concluded that

"... according to users of financial statements—including banks and investment banks—accounting and disclosure regulations and standards in the Philippines compare favorably with those in many Asian countries. But the same users report that enforcement by regulators is weak and that auditors seldom issue caveats that might raise questions about the reliability of the information contained in client financial statements. In addition, there is no tradition of legal actions by investors and lenders against company officers or auditors in connection with cases of deficient or misleading financial reporting. Hence, the true financial state of companies may not be known sufficiently in advance to arrest a potentially serious deterioration in performance."

However, other studies and surveys have been less positive.

The Revised Accountancy Law 1975 regulates the auditing profession; Only CPAs may conduct statutory audits. Recent studies have identified concerns regarding auditing practices. Professional firms are regulated by the SEC. The BOA, through the PRC, has recently begun to review and license accountancy firms. All of the large international accountancy firms are represented in the Philippines.

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Professional Infrastructure

The origins of Philippine public accounting practice can be traced back to the 1700s. However, accountancy was not formally recognized as a profession until the enactment of the Accountancy Law 1923. This law established the CPA title for those who passed a written licensure examination. It also created the BOA to regulate the profession. Six years later, in 1929, CPAs organized PICPA, which makes it one of Asia’s oldest professional accountancy bodies.

In the past 7 decades, PICPA has contributed immensely to the accountancy profession’s development. PICPA members have also actively contributed to the international profession (Washington Sycip was IFAC President from 1982 to 1985).

There are now over 100,000 Philippine CPAs. Each year around 14,000 candidates sit the CPA licensure examination, but less than 20% are successful. In the absence of empirical evidence, various reasons have been advanced to explain these low passing percentages, including poor English language skills reflecting deficient basic education, lack of training materials and inadequate facilities.

Today, the Philippines accountancy profession is one of the world’s most vibrant. It is also one of the most restricted. A mixture of regulation and private involvement characterizes professional organization. The key governing legislation is the Revised Accountancy Law 1975. The BOA, under the oversight of the PRC, determines and prescribes the minimum requirements for CPA licensure. It is also responsible for supervising, controlling and regulating accountancy practices. The Board administers the CPA examination and issues certificates to successful candidates. Among other things, Philippine CPAs must hold an undergraduate accounting degree and pass a multiple-choice professional examination. In contrast to international guidelines, practical experience is not required and continuing professional education is not mandatory. The BOA also investigates violations of the Revised Accountancy Law 1975 and may suspend, revoke, or reissue registration certificates.

By December 2000, 103,340 CPAs were registered with the PRC, but only about 20% were active (i.e., fee-paying) members of professional organizations. Furthermore, it is estimated that there are at least 400,000 accounting graduates who are not CPAs. In 1999, PICPA launched a concerted push for professional integration (i.e., compulsory CPA membership). These efforts increased membership significantly.

As of December 2000, PICPA had 20,323 active members (those who pay membership dues and receive information and services). PICPA
regularly organizes seminars on technical subjects such as auditing, taxation, management services, accountancy education, accounting principles and information technology.

Sectoral PICPA bodies include the Government Association of Certified Public Accountants (GACPA), the Association of Certified Public Accountants in Public Practice (ACPAPP), the Association of Certified Public Accountants in Commerce and Industry (ACPACI) and the Association of Certified Public Accountants in Education (ACPAE). Furthermore, the National Federation of Junior Philippine Institute of Accountants (NFJPIA) links accountancy students with their professional counterparts. Other professional bodies include the Philippine chapter of the US-based Institute of Internal Auditors and the Association of Government Internal Auditors (AGIA). AGIA represents internal auditors in government and promotes their professional development. It had 1,177 members in 1999.

In recent years, globalization has focused attention on raising standards to meet the challenge of increased competition. Meanwhile, concerns about CPA licensure procedures and apparently soft disciplinary procedures have undermined the profession’s reputation. For example, the BOA has the power to suspend or revoke CPA titles. However, these powers are seldom exercised and when they are, the reasons are usually related to unprofessional conduct rather than the failure to properly execute the duties and responsibilities of an auditor.

“Big auditing firms do not get sued because their interest is always protected through the influence they have on BOA. The presence of representatives from the big auditing firms on the BOA serves the personal interest of those firms. ... If cases of big auditing firms are filed with the Board, then it is just like saying that they are putting themselves on trial—which really negates the purposes of the Board. This is where the law has a loose end.” – Former PRC Commissioner (1998)

In 1979–1997, 170 cases were filed against individual CPAs and one against an accounting firm. No cases were filed against CPAs on the grounds of gross negligence or incompetence in the practice of their profession, issuing an accountant’s certificate covering the examination of client accounts without observing the necessary auditing standards, or conduct discreditable to the accounting profession. But, the SEC has investigated *prima facie* malpractice cases. Two examples involve Engi-

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neering Equipment Incorporated (EEI) and Victorias Milling Company (Vicmico). Both cases centered on material misstatements in the companies’ certified financial statements. In relation to EEI, the SEC wrote “the auditors may have been involved or professionally negligent” and recommended a 1-year suspension of the firm’s accreditation to appear for clients before the SEC. This recommendation was later overturned and the auditors reportedly fined P50,000 ($1,000). The penalty was not reported in the media. Nor did the PRC or the BOA investigate the auditing firm. As for Vicmico, neither the PRC nor the BOA took action, while the SEC pursued the case. Moreover, in the Vicmico case, the auditing firm later withdrew its audit reports for the financial statements in question.

In 2000, PICPA focused on (i) amending the Accountancy Law 1975 to support membership growth; (ii) fully computerizing operations; (iii) reviewing and amending the Institute’s bylaws; (iv) refining a proposal for PICPA to administer examinations to accounting graduates and unsuccessful CPA examinees to make them registered accountants to be accredited with the BIR, SEC and BOA; and (v) promoting the field of environmental accounting. In 2001, PICPA is concentrating on three areas. First, undertaking policy reforms including (i) improving policy formulation, deliberation, and implementation through the use of sectoral clusters and feedback loops; (ii) strengthening development and training policies; and (iii) preparing structural and organizational changes that require changes in bylaws, the Revised Accountancy Law 1975, and the Code of Ethics. Second, strengthening professional development by (i) continuing progress on establishing the Power Knowledge Institute; (ii) establishing a technical resource pool; (iii) improving library facilities and resources; (iv) extending development forums to Luzon, Visayas, and Mindanao; (v) improving the curriculum and re-tooling CPAs; (vi) enhancing the Institute’s Internet site; (vii) updating publications; and (viii) mandating the inclusion of professional development issues in the agendas of chapter meetings. Third, increasing the Institute’s focus on social responsibility.

Accounting and Auditing Standards

In 1949, PICPA began issuing accounting standards in the form of accounting bulletins, compliance was voluntary. In response to a 1979 PICPA committee report on the state of Philippine financial accounting standards and standard setting, the Institute established the ASC in November 1981.
The ASC issued the first Philippine SFAS in 1983. Until 1996, the ASC based most SFASs upon US accounting standards. Starting in 1996, the ASC issued IAS-based SFASs. The Council's mechanism for standard setting is similar to that of the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB). Once approved by the BOA, the PRC’s final concurrence gives legal authority to the SFAS and CPA compliance is mandatory.

SFASs are broadly consistent with their equivalent IASs, but 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 SFASs will be the same as IASs. Furthermore, the Philippines will fully adopt IAS by 2005.

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 these practices do not contravene prescribed accounting standards. Furthermore, in the absence of a specific SFAS or tax ruling, the BIR will refer to authoritative accounting sources, such as IASs.

PICPA formerly issued auditing guidance as bulletins. In response to the 1979 PICPA committee report that influenced ASC's establishment, PICPA and the ACPAPP established the Auditing Standards and Practices Council (ASPC) in 1986. 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 International Auditing Practices Committee pronouncements. All ASPC-approved SASPs are submitted to the PRC through the BOA and, once approved, CPA compliance is mandatory.

The ASPC was inactive for several years but resumed activities in 2001 under a new chairperson. The rejuvenated ASPC will complete direct adoption of IAASB pronouncements by 2005.

Education and Training
The American colonial period substantially influenced accountancy education arrangements in the Philippines. Business schools were initially established across the country to provide a skilled labor pool for government and business organizations. Eventually business education
progressed to the point where the University of Philippines began to offer accounting courses in 1916.

Today, the Philippine education system, and its graduates, is internationally and regionally recognized as being of a high standard. The top Philippine accountancy faculties are also recognized for the caliber of their graduates and research publications.

Several laws and regulations govern accountancy education and coordination. These include the *Revised Accountancy Act 1975*. The BOA recently established an Accounting Education Task Force to help it examine developments in the accountancy profession as they affect accountancy education. The *Higher Education Act 1994* created the Commission on Higher Education (CHED). Among other things, CHED is responsible for (i) formulating and recommending development plans, policies, priorities, and programs on higher education; (ii) setting minimum standards for programs and institutes of higher education; (iii) monitoring and evaluating the performance of programs and institutions; and (iv) imposing sanctions for poor performance. PICPA is also involved in educational coordination through its representation on CHED's advisory board and in the BOA.

Driven by concerns over educational quality and the issuance of updated international guidance, BOA and PICPA began developing proposals for a revised accountancy curriculum in 1998. CHED approved the revised curriculum in August 2001, which reflects relevant guidance from the United Nations Conference on Trade and Development (UNCTAD) and International Federation of Accountants (IFAC).

The Philippines had 164 public and 1,189 private higher education institutions at September 2000. Of these institutions, 367 offered accredited BSA programs. The quality of these programs differs substantially when assessed on the basis of graduate success in the CPA licensure examination. Zero-performing schools—those that had no successful candidates in the CPA licensure examination—comprise around 50% of accredited institutions. Students at these schools are predominantly drawn from less wealthy families.

In the 1999–2000 academic year, CHED acted to phase out the accountancy programs of 54 schools. In addition, one school was warned and one school was referred to the Technical Panel for further action. The CHED process is continuing and should reduce the number of substandard schools offering accountancy programs.

As a condition of offering accountancy programs, institutions must have a formal faculty development program. However, in some schools,
continuing training for accountancy lecturers and professors is very limited. The absence of relevant materials is perceived as a constraint to staff development (most materials are local adaptations or reprints of US books). These books are based on US Generally Accepted Accounting Principles (GAAP) rather than international standards and practices. Furthermore, case studies based on local practices and conditions are rare.

Government Budgeting and Accounting

Government accounting and auditing arrangements were formulated in 1947. They have many strengths including the use of double-entry bookkeeping, a mixed cash-accrual accounting base, a cadre of well-trained accountants, and potential access to a large external pool of trained accountants.

Wider public management arrangements are characterized by institutional and regulatory rigidities. Efforts to modernize the public sector have gathered pace in recent years. Among other things, the Government intends to (i) develop a medium-term expenditure framework (MTEF); (ii) introduce output and outcome performance measures and targets; (iii) overhaul procurement practices; (iv) introduce 3-year baseline budgeting; (v) modernize auditing practices; (vi) introduce computerized financial management information systems; and (vii) prepare for the introduction of full accrual accounting.

The Constitution 1987 mandates the keeping of government accounts, the promulgation of accounting rules, the audit of financial reports, and the submission of reports covering government’s financial operations and position. A raft of laws and decrees are subsidiary to the Constitution and include the State Audit Code 1978 that specifies the powers and responsibilities of the Commission on Audit (COA). COA audits the general accounts of government, promulgates accounting rules and regulations, and submits the annual government financial report (including government-owned or controlled corporations).

In accordance with the Constitution 1987, fund, obligation and cash-disbursement-ceiling accounting methods are used in government. These methods are based on those used in the US Government (before it began its move to accrual accounting). Organizations are required to use a COA-prescribed standard chart of accounts. A variety of accounting standards are applied in the preparation of financial reports. These include the prescriptions set out by the government financial statistics (GFS) system, and COA’s accounting rules and chart of accounts. COA
is planning the move to full accrual accounting and is considering the appropriateness of the International Public Sector Accounting Standard as the basis for government accounting standards.

The financial reports of government organizations include (i) current assets, (ii) contingent assets, (iii) fixed assets, (iv) current liabilities, (v) contingent liabilities, (vi) allotted appropriations, (vii) income, (viii) invested surplus, (ix) contingent surplus, (x) national clearing account, (xi) the total surplus, and (xii) assorted notes to the accounts. However, these reports are generally not provided in a timely manner.

The entry salaries and conditions for government accountants compare very favorably with the private sector. Indeed, government agencies have no difficulty attracting high-quality accounting personnel. However, as the government salary structure is flatter than that of the private sector, these personnel are difficult to retain once they have gained experience. Moreover, these comparatively low salaries for senior personnel provide a supportive environment for graft and corruption. In response, several legislative measures have been prepared to raise the remuneration and status of government accounting personnel. However, in the view of a recent study:

"While the ... study did not allow an examination of the actual performance of government accountants, the consultants engaged in this project were impressed with the professionalism of the accountants they encountered. Provided that they receive adequate technical direction and training, we have no reason to believe that the general competence of accountants is an issue." 3

Government accounting personnel must hold CPA licenses, but their role is largely limited to bookkeeping, due to the complicated legal accounting framework and the absence of computerized systems. Minimal time is available for financial analysis and providing financial advice to management.

**Donor Assistance**

ADB is supporting broad governance activities through technical assistance and loans. Directly relevant activities include

- Loan 1858: Nonbank Financial Governance Program ($75 million: 2001–2003). This study provided input into this program’s development,

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which is intended to support the development of stronger financial sector and institutions. Its key pillars are (i) strengthening the governance and enforcement capacity of the regulators, Bangko Sentral ng Pilipinas and SEC; (ii) introducing more transparency in the market; and (iii) encouraging equal enforcement of rules and regulations. Loan implementation is supported by TA 3773: Strengthening Regulatory Market Governance.

- **Loan 1363: Capital Market Development Program** ($150 million: 1995). The program objectives were to support financial and corporate governance reforms, particularly the development of capital market institutions with a view to enhancing transparency and predictability in the marketplace.

- **TA 31656-02: Strengthening Public Finance and Planning of Local Government Units (LGUs)-II** ($0.100 million: 2002). This proposed technical assistance (TA) is intended to assist the Government to conduct more detailed analysis of its budget processing and project-monitoring mechanism.

- **TA No. 3310: Capacity Building for Procurement** ($0.400 million: 2000). This project strengthened institutions with procurement responsibilities.

- **TA No. 3245: Nonbank Financial Sector Development** ($2.0 million: 2000–2001). Among other things, this TA has focused on reorganizing and strengthening the SEC.

- **TA No. 3145: Strengthening Public Finance and Planning of Local Government Units** ($0.870 million: 1999–2000). This TA focused on strengthening LGU budgeting and finance capabilities.

**World Bank** assistance is primarily for tax administration, financial market development, and supervision of financial institutions. In 1998, the World Bank approved a Banking System Reform Project, which aimed to strengthen banking sector regulation and supervision and develop a resolution framework for troubled banks. The release of the second tranche of this loan has been delayed due to the lack of agreement between the Government and the major shareholders on the pricing of government shares in Philippines National Bank (PNB). As a result, the Government has not been able to divest its PNB shares, which is a second tranche loan condition. Furthermore, a proposed loan for $100 million to support public sector reforms was abandoned in 2000. The Local Government Finance and Development Project ($100 million) is assisting participating LGUs to expand and upgrade their basic infrastructure, services, and facilities and to strengthen their capacities in
EXECUTIVE SUMMARY

municipal governance, investment planning, revenue generation, and project development and implementation.

The United Nations Development Programme (UNDP) intends to provide support to strengthen the role of the Department of Budget and Management in the public sector reform process. The Australian Agency for International Development (AusAID) is providing the majority of financing for a UNDP-managed project to strengthen the COA. The Canadian International Development Agency (CIDA) is providing TA and training to assist government departments and agencies to further develop their internal mechanisms and structure for increased efficiency in policy formulation, planning, implementation, monitoring and evaluation. CIDA is also providing assistance to enhance the structures and mechanisms of local governments.

Japan does not directly support financial management and governance activities, but provides indirect assistance through Japan-based education and training on financial management and public management. The United States Agency for International Development (USAID) is implementing a TA project to (i) develop the capacity of the Philippines Stock Exchange (PSE); (ii) assist in drafting rules for implementing the newly-enacted Securities Regulation Code 2000; (iii) review the corporate code; and (iv) facilitate company registration procedures within the SEC. USAID is also supporting improvements to government procurement, local government finance and budget information systems. Furthermore, USAID has supported environmental accounting training initiatives.

Issues and Recommendations

This Diagnostic Study of Accounting and Auditing identifies issues and recommendations that are associated with gaps or weaknesses in accounting and auditing arrangements. These issues and associated recommendations are broadly consistent with those identified by the coincident World Bank review of Philippine Corporate Sector Accounting and Auditing Practices. Issues are separated into (i) those that are able to be resolved without the need for external assistance; and (ii) those that are better able to be resolved with external assistance.

The Philippines was less affected by the Asian financial crisis than some other countries in the region, largely due to better financial management arrangements. Moreover, accountancy is an elite and respected profession in the Philippines. However, the study revealed a
range of issues that need attention if accountancy is to maintain its high status and if the Philippines is to successfully attract investment.

- In the case of accounting and auditing standards and practices the study identifies deficiencies in the standards and in standard-setting arrangements. Several recommendations are made to enhance these arrangements so that the Philippines can have world-class accounting and auditing standards.

- The quality of financial reporting is undermined by a lack of compliance monitoring. To this end, the study recommends that financial disclosure monitoring be strengthened.

- With regard to professional arrangements the study identifies significant weaknesses in CPA licensure standards and quality assurance arrangements. The Philippines accountancy profession was once among the region’s strongest. However, in the meantime, international standards and practices were continuously enhanced and neighboring countries developed their professions accordingly. The recommendations are intended to support the return of the Philippines accountancy profession to its former status.

- Standards of accountancy education and training might also be raised. To this end, recommendations are made to improve course quality and ensure that accountancy teachers keep abreast with international developments.

Some constraints can be addressed with minimal resources and effort—for instance, strengthening the profession by making PICPA membership compulsory for all CPAs. Others are more complex and will take time, such as enhancing CPA licensure (examination, practical experience and continuing professional education).
I. Introduction

1. Study Background

The 1997 financial crisis in Asia exposed structural weaknesses in the banking and corporate sectors of affected countries owing largely to poor governance, a lack of transparency, and weak supervision and regulation.4

The Asian Development Bank (ADB) has been taking a number of initiatives to assist its developing member countries (DMCs) to overcome these structural problems. The focus on improved governance includes enhancing the effectiveness of public administration and development management at the sector level and in national institutions in the DMCs. Where appropriate, institutional development of the local and provincial agencies and the private sector is also covered. A sound regulatory financial framework and its enforcement, capable institutions, skilled human resources, and effective monitoring and supervision are important prerequisites to an efficient financial structure.

Regional Technical Assistance (RETA) No. 5765—Banking, Capital Market and International Competitiveness Reforms in Response to the Currency Turmoil5—was approved by ADB for the purpose of designing and implementing support programs to respond to the currency turmoil and to monitor developments in vulnerable economies to enable those countries to formulate suitable financial sector and industry and trade competitiveness reform measures. This study is one RETA 5765 initiative. It also provided input to the policy dialogue for an ADB loan for development of Philippine nonbank financial governance.

This study is part of the ADB series of country Diagnostic Studies of Accounting and Auditing (DSAA). In 2000, DSAA were completed and published for Cambodia, Mongolia, Pakistan, Papua New Guinea, People’s Republic of China, Uzbekistan and Viet Nam.6 In 2001–2002, DSAA were prepared for Azerbaijan, Fiji Islands, Marshall Islands, Philippines and Sri Lanka.

5 For $2,625,150 approved on 22 December 1997.
6 RETA 5877, Strengthening Financial Management and Governance in Selected DMCs.
2. **Study Objectives**
ADB has demonstrated its stand on the importance of good governance, through effective financial management for sustained economic development. This study involved a diagnostic review of the existing accounting and auditing support, and associated standards in the Philippines. After carrying out the diagnostic review, the study assessed the need for assistance to improve the current situation. Objectives were to:

(i) assess the capability and capacity within the Philippines to provide efficient and effective accounting and auditing support to meet international standards and best practices, and address the issue of training and capacity enhancement

(ii) determine existing accounting and auditing standards

(iii) assess the degree of deviation from International Accounting and Auditing Standards

(iv) assess accounting and financial disclosure standards for financial institutions, comparing this transparency with accepted international standards and recommend improvements thereto

(v) discuss and debate the study findings at a workshop attended by representatives of ADB, the Government, the Philippine Institute of Certified Public Accountants (PICPA), other interest groups, and donors, and

(vi) determine the level and type of assistance needed in order to provide acceptable accounting and auditing support for the private and public sectors.

3. **Country Case Study and Workshop**
The first part of the study examined the current accounting and auditing structure and systems adopted in the Philippines. It also (i) analyzed the political, institutional, and regulatory and legal framework on accounting and auditing practice, and the level of enforcement of existing laws, rules, and regulations; (ii) identified gaps and weaknesses in accounting and auditing support available and deviations from international standards; and (iii) identified alternative options to remedy the identified weaknesses, with the objective of eventually doing away with these. Emphasis was placed upon: (i) reviewing the extent to which the Philippine Institute of Certified Public Accountants (PICPA) had been consulted on accounting and taxation legislation in the past 5 years; and (ii) comparing the disclosure requirements for financial institutions (particularly banks, insurance companies, securities companies, and other nonbank financial institutions) with accepted international
regulatory and reporting standards. Information was collected through interviews (see Appendix 2) and a review of published materials.

The second part of this study disseminated the findings of the country research at an in-country workshop. The workshop was held at ADB headquarters in Manila on 12–13 March 2001 and was attended by representatives from the Government, professional organizations, accounting firms, academia and donor organizations (see Appendix 5). It provided a cross-section of views on the findings of the research and established ways to move forward to improve financial management and governance in the Philippines.

Appendix 3 provides further detail on the study process. Some reviewers and workshop participants questioned this study’s reliance on published information sources rather than verbal interviews. However, this emphasis is consistent with standard research methodology. Interested parties also provided written comments on report drafts (see Appendix 4). This report incorporates feedback from the workshop and the written comments. It was updated in March 2002 following the Manila international workshop.

4. **ADB Focus on Philippine Financial Governance**

The ADB Philippines operational strategy was reformulated in April 1998. The strategy takes into account the operational priorities arising from the Asian financial crisis and gives increased importance to poverty reduction and social development. It particularly emphasizes (i) promoting equitable growth; (ii) improving the provision of basic social services, including health and education; and (iii) improving management and protection of the environment. The strategy aligns with the Government’s Medium-Term Philippines Development Plan (MTPDP) and ADB’s poverty-reduction strategy. ADB’s existing, or intended, support for financial governance improvements include:

- **Supporting improvements in the efficiency of financial mediation.** Capital market development will focus on reforms in debt and equity markets and among nonbank financial institutions. Technical assistance will be extended to support reforms in the debt and equity markets to increase disclosure requirements, strengthen rules and regulations, and support enforcement efforts and measures to professionalize the management of the Securities and Exchange Commission (SEC) and the Philippines Stock Exchange.  

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Supporting anticorruption initiatives. Attention is being focused on improving the functioning of the Commission on Audit (COA) so that it can play a more effective role in improving the accountability of public expenditures and preventing corruption. ADB will also support reform initiatives that will increase the supervision authority of the Bangko Sentral ng Pilipinas (Central Bank of the Philippines) so that it can step up its efforts against money laundering.

5. The Philippines

General
The Republic of the Philippines has a land area of 300,000 km² and comprises 7,000 islands. There are about 80 million Filipinos of whom 12 million live in the capital of Manila. Over half the population is under 20 years of age. Filipino ethnicity is diverse with people of Chinese, Malay and Spanish descent. The national language is Filipino, based on Tagalog. English is also widely spoken.

The agriculture, fishing, and forestry sectors are the largest. Mining is also important, yielding gold, copper, iron, chromites, manganese, salt, and coal. The manufacturing sector too is significant—manufactured exports include machinery, transport components and clothing. Table 1 presents key indicators for the Philippines and for selected neighboring countries.

## Table 1: Comparative Information

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Azerbaijan</th>
<th>Fiji Islands</th>
<th>Philippines</th>
<th>RMI</th>
<th>Sri Lanka</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population (thousands, 2000)</td>
<td>8,049.0</td>
<td>811.0</td>
<td>78,400.0</td>
<td>52.0</td>
<td>19,359.0</td>
</tr>
<tr>
<td>Population density (people per km², 2000)</td>
<td>93.0</td>
<td>44.0</td>
<td>263.0</td>
<td>282.0</td>
<td>295.0</td>
</tr>
<tr>
<td>Urban population (% of total, 2000)</td>
<td>57.3</td>
<td>42.3</td>
<td>58.6</td>
<td>71.9</td>
<td>23.6</td>
</tr>
<tr>
<td>Average annual population growth rate (%)</td>
<td>1.0</td>
<td>1.1</td>
<td>2.2</td>
<td>1.5</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Social</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under-five mortality rate (per 1000, 1999)</td>
<td>16.0</td>
<td>18.0</td>
<td>31.0</td>
<td>63.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Life expectancy at birth (years, 1999)</td>
<td>71.0</td>
<td>67.0</td>
<td>69.0</td>
<td>65.0</td>
<td>74.0</td>
</tr>
<tr>
<td>Adult literacy rate (15-yr*, %, 1999):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Females</td>
<td>97.0</td>
<td>90.0</td>
<td>95.0</td>
<td>97.0</td>
<td>89.0</td>
</tr>
<tr>
<td>– Males</td>
<td>97.0</td>
<td>93.0</td>
<td>95.0</td>
<td>97.0</td>
<td>94.0</td>
</tr>
<tr>
<td>Population in poverty (%)</td>
<td>68.1</td>
<td>25.5</td>
<td>40.0</td>
<td>...</td>
<td>26.7</td>
</tr>
<tr>
<td>Human Development Index (1999)</td>
<td>0.74</td>
<td>0.76</td>
<td>0.75</td>
<td>0.56</td>
<td>0.74</td>
</tr>
<tr>
<td><strong>Economic</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross National Product (GNP) ($ million, 1999)</td>
<td>3,705.0</td>
<td>1,848.0</td>
<td>77,967.0</td>
<td>99.0</td>
<td>15,378.0</td>
</tr>
<tr>
<td>GDP per capita ($)</td>
<td>654.0</td>
<td>1,978.0</td>
<td>959.0</td>
<td>1,890.0</td>
<td>842.0</td>
</tr>
<tr>
<td>GDP growth rate (%) – 2000</td>
<td>11.4</td>
<td>-9.3</td>
<td>4.0</td>
<td>-2.3</td>
<td>6.0</td>
</tr>
<tr>
<td>– 1999</td>
<td>7.4</td>
<td>9.6</td>
<td>3.4</td>
<td>0.8</td>
<td>4.3</td>
</tr>
<tr>
<td>– 1998</td>
<td>10.6</td>
<td>1.4</td>
<td>-0.6</td>
<td>-16.0</td>
<td>4.7</td>
</tr>
<tr>
<td>– 1997</td>
<td>8.8</td>
<td>-0.9</td>
<td>5.2</td>
<td>-9.4</td>
<td>6.3</td>
</tr>
<tr>
<td>Consumer Price Index (annual % change, 2000)</td>
<td>1.9</td>
<td>1.1</td>
<td>4.4</td>
<td>-1.9</td>
<td>6.2</td>
</tr>
<tr>
<td>Fiscal Balance / GDP (%)</td>
<td>-1.0</td>
<td>...</td>
<td>-4.2</td>
<td>-35.5</td>
<td>-9.9</td>
</tr>
<tr>
<td>Total External Debt / GNP (%)</td>
<td>30.0</td>
<td>9.3</td>
<td>64.8</td>
<td>...</td>
<td>60.3</td>
</tr>
<tr>
<td><strong>Official Development Flows</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ million (1999)</td>
<td>207.2</td>
<td>23.2</td>
<td>295.0</td>
<td>62.9</td>
<td>343.6</td>
</tr>
<tr>
<td>Dollars per capita (1999)</td>
<td>25.7</td>
<td>28.6</td>
<td>3.8</td>
<td>1,219.0</td>
<td>17.7</td>
</tr>
<tr>
<td>Percentage of GNP (1999)</td>
<td>5.6</td>
<td>1.3</td>
<td>0.4</td>
<td>63.5</td>
<td>2.2</td>
</tr>
</tbody>
</table>

RMI = Republic of the Marshall Islands

Foreign powers governed the Philippines for almost 4 centuries. These powers included Spain (1565–1762 and 1763–1898); Great Britain (1762–1763); the United States (US) (1898–1942); and Japan (1942–

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1945). The Philippines gained independence from the US on 4 July 1946. It is not surprising that Philippine political and financial governance arrangements are heavily influenced by the US given the close linkages between the two countries over the past century.

The country has had a rocky ride since independence. President Ferdinand Marcos declared martial law in 1972 ostensibly in response to chaos, prevalent corruption and high crime levels (the Philippines was often referred to as the ‘Wild East’ at that time). Changes were noticeable as crime decreased and public health services improved. But, dissatisfaction grew with the dictatorial regime. A nonviolent campaign of civil unrest and national protest culminated with President Corazon Aquino’s election and Ferdinand Marcos’s exile in February 1986. President Aquino restored democracy by reestablishing a democratic parliament and the Supreme Court. Her successor, Fidel Ramos, made substantial reforms from 1992 to 1998.

Joseph Estrada was elected president in 1998. However, the Japanese economic deterioration combined with uncertainties over the Estrada administration’s policies, caused a new downturn that culminated in the September 1998 emerging market crisis. Financial markets subsequently recovered with equity prices up twofold, peso appreciation, a large increase in official reserves and significant declines in interest rates. But, President Estrada, amidst political turmoil in January 2001, was forced out of office. The administration of President Gloria Macapagal Arroyo has professed commitment to economic reform. In the meantime, the Philippines slipped from being one of East Asia’s richest countries at independence to one of its poorest today.

Recent Economic Events

Following the economic and financial crises of the late 1980s and early 1990s, the Philippines launched a robust economic reform program—including improved debt management, trade liberalization, privatization, deregulation, and financial reforms—that contributed to declining public sector deficits, accelerating growth and rising capital inflows after 1992. By 1996, real GNP was growing at 6.9% and the incidence of poverty had been reduced from 40% to 33%.  

The Philippine economy was among the first in the region to be hit by the Asian financial crisis. Already early in 1997, financial markets were exhibiting increased anxiety over the rising trade deficit, rapid
credit expansion and the sustainability of property prices. The crisis’ initial symptoms were similar to those in Indonesia, Republic of Korea, Malaysia and Thailand. They included a loss in investor confidence resulting in large capital outflows, a decline in reserves, stock market collapses and a large currency depreciation.\textsuperscript{13}

The crisis’ economic and social impacts were not significant in 1997 (although real GNP growth slowed to 5.3 %). But 1998 GNP growth was only 0.1 % due to the combined effects of high interest rates (which dampened domestic and external demand), continued uncertainty in global financial markets, and agricultural distress wrought by the El Niño and La Niña weather phenomena. The crisis’ social impacts included reduced credit affordability and access (particularly for the poor), lower real incomes (largely due to the drought), and reduced government services. Unemployment levels also jumped sharply in early 1998, but had fallen back within 6 months. Consumer price inflation was contained at around 10 % – up from 6 % in 1997.

Despite the peso’s sharp decline, the Philippine economy weathered the regional crisis relatively well. There was no need for the Government to recapitalize private banks and most large corporations remained solvent. This has been attributed to (i) relatively strong pre-crisis capital positions and portfolio quality among Philippine banks, (ii) a relatively strong banking regulatory and supervisory framework due to reforms after the 1980s banking crisis, (iii) low debt-equity ratios—by regional standards—in the corporate sector, (iv) less overheated real estate markets, and (v) strong export growth and remittance flows.\textsuperscript{14}

After a brief recovery in early 1998, the deterioration in Japan, coupled with uncertainties over the policies of the newly-elected Estrada administration, caused a new downturn that culminated in the emerging market crisis in September 1998\textsuperscript{15} (the stock market index fell below 1,200, compared with the high of more than 3,400 in January 1997). In the period leading up to the most recent political upheaval, financial markets strengthened continually, with equity prices up two-fold; peso appreciation and a large increase in official reserves; and interest rates declining to below pre-crisis levels.

\textsuperscript{13} International Monetary Fund. 2000. Recovery from the Asian Crisis and the Role of the IMF: Issues Brief 2000/05.


\textsuperscript{15} Following the introduction of capital controls in Malaysia and Russia’s default on part of its government debt.
Fiscal indicators have deteriorated significantly in the past three years. The budget deficit was P136 billion ($2.8 billion) in 2000; double the Government’s target. The new administration of President Gloria Macapagal–Arroyo is warning of a P190 billion shortfall in 2001. The other immediate task is to combat slowing growth—the Philippines is very exposed to the US slowdown, especially in the demand for electronics.

One way to mitigate these short-term problems would be to persuade investors that the long-term outlook fundamentally changed with Joseph Estrada’s departure. But, by May 2001, domestic and foreign investment levels had fallen dramatically. Daily turnover on the Philippines Stock Exchange had also more than halved from P800-P1,000 million in the fourth quarter of 2000 to about P300-P400 million in May 2001. Furthermore, in its annual Philippines country update, rating agency Standard & Poor’s said that “the Philippine banking sector is weak by international standards, and is suffering from a lack of operational transparency amid high risks in the economy and the industry.” In response, the Bankers Association of the Philippines (BAP) contended that “the Bangko Sentral ng Pilipinas (BSP) has already undertaken several reform measures this year... [and the rating agency] ... may have been misinformed and unaware of these reform measures.”

Whatever the case, President Arroyo has stated that her administration “is looking at ways that the Government can address the concerns of portfolio and direct investors and is committed to reforms that will restore confidence in the country.”

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Figure 1: Standard & Poor’s: Selected Credit Ratings at 18 May 2001

Challenges
The Philippines economy must overcome three structural challenges if sustained growth is to be achieved: high poverty, poor environmental management and inadequate infrastructure. Continuing high poverty—more than a third of the population is poor—shows that the development process has not succeeded and that large sections of the population, impeded by poverty, are unable to contribute. Environmental protection is essential for sustaining growth and ensuring livelihood for some of the poorest segments of society. Both are major constraints to development and, unless tackled urgently, will impede its progress.


While the policies pursued over the past decade have had major positive results, events over the past 3 years have highlighted that much remains to be done. The task is not only to restore the momentum of growth and investor confidence of the mid-1990s, but also to sustain it through policies that prevent a return to the boom-and-bust cycles of the past while ensuring the Philippines full and competitive participation in the global marketplace.

Against this background, and considering the policy agenda for the current decade, two imperatives are: to deal with the still quite pervasive legacy of the past, such as low savings, widespread poverty, accommodation of rent-seeking activities (e.g., graft and corruption), and a weak public sector; and to successfully manage the challenges of globalization, allowing the country to realize the benefits of integration while minimizing the associated risks of excessive leverage, currency overvaluation and sudden capital flow reversals.

In particular, this agenda includes: (i) maintaining prudent macroeconomic policies, with emphasis on avoiding fundamental inconsistencies that risk disruptive shifts in capital flows; (ii) raising domestic savings and investment from the current unsustainable low levels; (iii) further leveling the playing field through domestic and external liberalization, as well as effective programs to assist the poor and to enhance the opportunities for the disadvantaged; (iv) streamlining and strengthening the public sector—the traditional economic ‘Achilles’ heel’; (v) further strengthening prudential, supervisory, and debt resolution frameworks in the financial and corporate sectors (including prudential-based management of foreign currency risk); (vi) accelerating rural development through agricultural modernization and by encouraging the growth of small- and medium-sized enterprises in the countryside; and (vii) improving further the investment climate, including by strengthening governance.

In a wider sense, successful implementation of this agenda will need to be embedded in a continuous strengthening of Philippine democracy and its institutions, to overcome elements of stagnation such as a weak judicial system; corruption in public administration; concentration of control over economic resources, the media, and the political process; and rapid population growth.

Finally, on 22 June 2001, a 26-nation taskforce that includes Britain, Japan, the United States and other industrial economies issued a

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report singling out Russia, Nauru and the Philippines as having failed to make progress to improve controls over money laundering during the previous year.\textsuperscript{23}

6. \textbf{International Guidelines and their Surveillance}\textsuperscript{24}

The international community is supporting the development of guidelines, standards and codes to assess financial management and governance practices (see Table 2). This report compares Philippine arrangements and practices against these benchmarks.

These guidelines, standards, and codes—to varying extents—all involve accounting and auditing arrangements. Furthermore, in an attempt to identify and avoid potential crises before they occur, the International Monetary Fund and the World Bank have together embarked on a series of \textit{Reports on the Observance of Standards and Codes (ROSCs)}. These reports summarize the extent to which countries observe certain internationally-recognized standards.\textsuperscript{25} While ROSCs are intended to be voluntary, the information provided by each country (or not provided, as the case may be) is likely to influence country dealings with international financial institutions, and the level of confidence that the international financial community has in a country.


\textsuperscript{25} International Monetary Fund. September 2000. \textit{Experimental Reports on Observance of Standards and Codes (ROSCs)}. \url{www.imf.org/external/np/rosc}
Table 2: Selected International Guidelines, Standards and Codes

<table>
<thead>
<tr>
<th>International Guideline, Standard or Code</th>
<th>Promulgated By</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Principles of Corporate Governance</td>
<td>Organisation for Economic Co-operation and Development (OECD)</td>
</tr>
<tr>
<td>• Code of Good Practices on Fiscal Transparency</td>
<td>International Monetary Fund (IMF)</td>
</tr>
<tr>
<td>• Code of Good Practices on Transparency of Monetary and Financial Policies</td>
<td>IMF</td>
</tr>
<tr>
<td>• Implementation of the Objectives and Principles for Securities Regulation assessment surveys</td>
<td>International Organization of Securities Commissions (IOSCO)</td>
</tr>
<tr>
<td>• International Accounting Standards (IASs)</td>
<td>International Accounting Standards Committee (IASC) and International Accounting Standards Board (IASB)</td>
</tr>
<tr>
<td>• International Public Sector Accounting Standards (IPSASs)</td>
<td>International Federation of Accountants (IFAC)</td>
</tr>
<tr>
<td>• International Standards on Auditing (ISAs)</td>
<td>IFAC</td>
</tr>
<tr>
<td>• Banking Supervision Guidelines</td>
<td>Basel Committee on Banking Supervision (BCBS) of the Bank of International Settlements (BIS)</td>
</tr>
</tbody>
</table>

7. Report Structure

This report examines financial management and governance issues in the Philippines. It was finalized in March 2002, following the 5–6 March 2002 workshop and reviews of the draft report. In addition to this introduction, the report has the following chapters:

- Chapter II – Accounting and Auditing in the Philippines – presents an overview of Philippine accounting and auditing arrangements. It provides context for the following chapters on professional infrastructure, accounting and auditing standards, accounting and auditing training, and government budgeting and accounting arrangements.
• Chapter III – Professional Infrastructure – describes the professional accountancy infrastructure in the Philippines, which comprises regulatory bodies and professional associations.
• Chapter IV – Accounting and Auditing Standards – describes the accounting and auditing standards that govern the preparation of external financial reports and the audit of those reports.
• Chapter V – Accounting and Auditing Training – describes accounting and auditing education and training, including coordination of accountancy education.
• Chapter VI – Government Budgeting and Accounting – describes government budgeting and accounting arrangements.
• Chapter VII – Donor Assistance – reviews donor coordination mechanisms and discusses donor activities in relation to financial management and governance arrangements.
• Chapter VIII – Issues and Recommendations – presents the issues and recommendations that are associated with gaps or weaknesses in accounting and auditing arrangements.
• Chapter IX – Country Action Plan – summarizes deficiencies and actions to address these deficiencies. Recommendations are divided into those actions that would be better achieved with external assistance and those actions that may be achieved without the need for external assistance.
II. Accounting and Auditing in the Philippines

This chapter presents an overview of Philippine accounting and auditing arrangements. It provides context for the following chapters on professional infrastructure, accounting and auditing standards, accounting and auditing training, and government budgeting and accounting arrangements. The chapter comprises eight sections, as follows:

Part One: Accounting
1 - Introduction – identifies historical factors that have influenced accounting arrangements.
2 - The “Philippine Accounting System” – describes accounting arrangements. These include the regulatory and organizational framework, accounting bases and accounting information systems.
3 - Financial Reporting – describes financial reporting and disclosure requirements.
4 - Quality of Financial Reporting – reviews evidence regarding compliance with disclosure requirements and the quality of Philippine financial reporting.

Part Two: Auditing
5 - Governing Laws and Regulations – describes the laws that govern Philippine auditing practices and audit requirements.
6 - Philippine Auditing Practices – examines Philippine auditing practices by comparing these to regional norms and international best practices.
7 - Public Accounting and Auditing Firms – describes the presence of domestic and international accounting firms in the Philippines.

8 - Issue Synopsis: Accounting and Auditing – summarizes the issues identified in this chapter.
Part One. Accounting

1. Introduction

Philippine accounting practices date back to the pre-Spanish period, when Filipinos conducted business with Chinese, Indians and Malays from neighboring countries. These trading activities forced Filipinos to prepare crude accounting records that were based mainly on cash receipts and payments.

The Philippines has, for a significant part of its recent history, been exposed to many foreign cultures and influences. The Spanish brought substantial changes to language and religion. The first accounting firms were established by the British in the 1700s. However, the comparatively short American colonial period was the most significant in influencing the Philippines’ major institutions—including the educational system and the formalization of the professions.

A number of American businesses established themselves in the Philippines during the 1920s and 1930s. Their activities and requirements influenced the establishment and initial growth period of the public accounting profession. During this time, the passage of the Accountancy Act 1923 created the Board of Accountancy (BOA) and gave it the authority to issue Certified Public Accountant (CPA) certificates. Six years later, the Philippine Institute of Certified Public Accountants (PICPA) was established within the private sector to represent professional interests.

Many of the larger Philippine companies were subsidiaries or branches of American companies—their accounting reflected US practices. Even after independence, the US maintained close links with the Philippines through trade and investment. These links strongly influenced public and private sector accounting regulation and practices. Until the mid-1990s, private sector accounting standards replicated those of the US (Although PICPA issued pronouncements to cover issues not covered by the US standards—for instance, “Revaluation of Fixed Assets”). Likewise, the Philippine accounting and auditing regulatory framework is similar to the US framework. It includes both governmental and a supervised form of self-regulation.

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26 Much of the information in this introduction is sourced from the following excellent article:
The Accountancy Act 1967, which replaced the Accountancy Act 1923, governed the standardization of accounting education, stipulated the examination process for CPA registration, and regulated the practice of accountancy. The Act allowed only Philippine citizens, and citizens of foreign countries extending similar privileges to Philippine citizens with respect to the practice of accountancy, to take the CPA exam and to practice accountancy. The Revised Accountancy Act 1975, which replaced the Accountancy Act 1967, remains in force and is the key piece of legislation that governs accounting and auditing arrangements.

Philippine accounting and auditing moved away from US influences towards international practices in the 1990s. For instance, International Accounting Standards (IASs) became the basis for Philippine accounting standards in 1996. In the wake of the 1997-98 Asian financial crisis, much attention has focused on accounting and auditing arrangements. While the Philippines weathered the crisis better than many of its neighbors, foreign direct investment (FDI) levels have fallen substantially in the past 3 years—the world economic slowdown is reinforcing this trend. Among a menu of options to make the Philippines a more attractive destination for FDI, one of the more effective choices is to adopt best-practice accounting and auditing standards, and to ensure that these standards are rigorously monitored and enforced.

2. The “Philippine Accounting System”

The Philippine accounting system is strongly influenced by US and, more recently, international practices. The governing legislative and institutional framework is comprehensive—the components of a developed and robust framework are readily identifiable. In common with the US model, these arrangements reflect a mixture of government intervention and self-regulation.

Legislative and Institutional Framework

Figure 2 depicts the legislative and institutional framework that governs Philippine accounting and auditing arrangements. The four key legislative planks are the Revised Accountancy Law 1975, the Corporation Code, the Revised Securities Act 2000, and the National Internal Revenue Code 1999.

The Revised Accountancy Law 1975 (Presidential Decree No. 692) replaced the Accountancy Act 1967. As with the earlier law, it governs the standardization of accounting education, stipulates the examination process for CPA registration and regulates the practice of accountancy. It remains in place today. The Revised Accountancy Law 1975 prescribes the
control and regulation over the registration of CPAs as well as accountancy practices more generally. The Professional Regulation Commission (PRC), through the Board of Accountancy (BOA), administers the provisions of this law. The Profession, through the Philippine Institute of Certified Public Accountants (PICPA), exercises regulatory duties relating to technical matters and work quality. However, the BOA must approve standards issued by the Profession before they are implemented.

Figure 2: Philippine Legislative and Institutional Framework

The Corporation Code, which is enforced by the Securities and Exchange Commission (SEC), governs the creation and operations of limited liability corporations. Unless companies are classified as closed corporations—those with 20 or fewer shareholders—they are obliged to abide by all the reporting and other requirements of a limited liability corporation. Among other things, they must submit audited financial statements to the SEC and the Bureau of Internal Revenue (BIR). However, companies in special industries, such as banks, insurance companies, and public utilities, fall under the control of the Bangko Sentral ng Pilipinas (BSP), the Insurance Commission, the Board of Transportation, or other governmental organizations.

Companies listed on the Philippine Stock Exchange must submit financial statements to the SEC in accordance with the Revised Securities Act 2000. The Act also makes the SEC responsible for overseeing
financial reporting requirements. In this respect, SEC rules and guidelines specify the form and contents of financial statements. The National Internal Revenue Code 1999 requires all corporations, partnerships and persons that file income tax returns to prepare and submit financial statements. It also requires that tax agents, including CPAs, be accredited by the BIR.

Accounting Bases
Financial statements for business organizations must be prepared using the accrual accounting basis. This requirement is specified in Statement of Financial Accounting Standard (SFAS) 1: Framework for the Preparation and Presentation of Financial Statements.

Accounting Information Systems
Accounting information systems range from complex enterprise resource planning systems to paper-based manual systems. As might be expected, given the strength of the national software industry, a variety of low-range to mid-range Philippine-developed software packages are used for budgeting and accounting.

3. Financial Reporting and Disclosure Requirements
Financial reporting regulations and disclosure requirements are governed by both mandatory and advisory sources. Mandatory sources include (i) the legal requirements in the National Internal Revenue Code—including maintenance of accounting records, content of financial statements, and the audit of companies incorporated in the Philippines; (ii) Statements of Financial Accounting Standards (SFASs) issued by the Accounting Standards Council (ASC); and (iii) rules and regulations issued by the Securities and Exchange Commission (SEC) governing the form and content of financial statements. Most accounting principles are adopted from IAS and US FASB statements. Where issues are not addressed by an SFAS, practices and pronouncements of IASC or FASB should be referred to.27

The Central Bank of the Philippines (up to 2 July 1993) and the BSP (from 3 July 1993) issued the Manuals of Regulations which specified the implementing regulations for the Central Bank laws (old and new), the General Banking Act, and the specialized banking laws for thrift banks, rural banks, the Development Bank of the Philippines, the Land

Bank of the Philippines, and nonbank financial intermediaries performing quasi-banking functions (NBQBs). The BSP has recently reissued the *Manuals of Regulation* in two volumes: one for nonbanks (May 1999)\(^\text{28}\) and one for banks (31 January 2000). A *Manual of Accounts*, containing a uniform chart of accounts for each type of bank and NBQB, complements the *Manuals of Regulation*.

Statutory financial statements include the Balance Sheet, Income Statement and Cash Flow Statement together with notes to the financial statements. Moreover, rules require the disclosure of all matters that might affect an investor’s decision to buy or sell a company’s securities. All companies with quarterly sales exceeding P100,000 (about $2,000) must have their financial statements audited and signed by a CPA.\(^\text{29}\) SEC rules require listed companies to file quarterly reports within 45 days of the quarter-end.

Corporations whose securities are listed at the exchange must prepare their financial statements according to the accounting standards promulgated by the ASC. Annual financial statements must be submitted to the SEC within 105 days of their fiscal year-end, which for most companies falls on 31 December. Audits are usually completed by mid-February of the following year, although in some cases this is extended to mid-March. However, annual reports are not distributed to shareholders until the middle of April when most shareholder meetings are held.

Most annual reports are prepared in English for national and international distribution. The extent to which annual reports are made available to investors and financial analysts varies. Large corporations usually have a department responsible for investor relations and are willing to provide information. In any case, the financial statements of Philippine taxpaying companies are available from the SEC.

Companies listed at the Philippine Stock Exchange are also required to file semi-annual financial statements with the SEC within 60 days following the end of the first half of the fiscal year. A few large corporations also prepare quarterly financial statements.

\(^\text{28}\) BSP. Circular 204.

4. **Quality of Financial Reporting**

Assessments of financial reporting quality vary. On one hand, a World Bank review of Philippine financial reporting practices favorably concluded that:

“...according to users of financial statements—including banks and investment banks—accounting and disclosure regulations and standards in the Philippines compare favorably with those in many Asian countries. But the same users report that enforcement by regulators is weak and that auditors seldom issue caveats that might raise questions about the reliability of the information contained in client financial statements. In addition, there is no tradition of legal actions by investors and lenders against company officers or auditors in connection with cases of deficient or misleading financial reporting. Hence, the true financial state of companies may not be known sufficiently in advance to arrest a potentially serious deterioration in performance.”

Moreover, 19 of the 28 respondents (68%) to a recent World Bank survey, rated the reliability of Philippine corporate financial statements as either good or excellent. These results were investigated though follow-up interviews. Those who rated financial statements as good or excellent qualified their responses by stating that they considered financial statements as being excellent or good from the reliability viewpoint if a Big Five firm had audited them. Those who gave ratings of fair or poor stated that they had given the rating for statements that had been audited by smaller firms.

Other studies present a less positive assessment. First, *Euromoney* magazine canvassed the views of global investors regarding the perceived quality of financial accounting systems in developing capital markets. The results of the study for the Association of Southeast Asian Nations (ASEAN), excluding Singapore, are presented in Figure 3; quality is rated from 1 (lowest) to 10 (highest).

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Second, a survey of the annual reports of 16 listed Philippine holding companies found that 75% of these companies did not present summarized information regarding the financial position of significant subsidiaries in 1997. Furthermore, 87.5% of the holding companies surveyed did not disclose summarized information regarding the results of operations and the financial position of affiliates. The compliance rate improved in the case of related party transactions—only one of the 16 companies did not disclose the amounts involved. As regards disclosure of long-term debt of subsidiaries, 44% of the sample did not report the separate liabilities of the parent and of its subsidiaries. The low compliance with financial reporting rules and regulations, especially as regards disclosure of summarized information for significant subsidiaries or significant affiliates, indicates a weak-monitoring system. This issue was raised in an earlier study of the financial reporting practices of Philippine firms.

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53 A total of 46 annual reports were surveyed from 1995 to 1997. All financial reports, except one, were given unqualified audit opinions.
Part Two. Auditing

5. Governing Laws and Regulations

The Revised Accountancy Law 1975 regulates the auditing profession—only CPAs are allowed to conduct statutory audits. The following laws and regulations determine audit requirements:

- Sections 75 and 141 of the Corporation Code require corporations with paid-up capital of P50,000 and above to submit audited annual financial statements to shareholders and to the SEC.
- The National Internal Revenue Code (NIRC) requires corporations, partnerships and persons with gross quarterly earnings of more than P150,000 to file audited financial statements with their tax returns.

6. Philippine Auditing Practices

Statements of Auditing Standards of the Philippines (SASPs) govern auditing practices and are issued by the Auditing Standards and Practices Council (ASPC). These standards, and the role of the ASPC, are described in Chapter IV (Accounting and Auditing Standards).

A recent Government publication identified concerns over weaknesses in corporate governance and auditing practices:

“The pervading irregularities in corporate practice include reckless lending by commercial banks, risky investment by managers, limited recourse to equity finance, connected lending, insider trading, expropriation and misuse of company funds by directors, managers or large shareholders, shady business deals, poor audits, and highly concentrated corporate ownership.”

An ADB study echoed these concerns:

“... there are many cases of poor financial reporting by large companies. Many small- and medium-sized businesses did not have quality financial statements. Publicly available financial information was often of low quality, arguably, because of the highly concentrated ownership of Philippine corporations, as large shareholders had no need for financial statements to monitor their companies and management that were under their own control. Even for widely-held public companies, the
authorities, namely SEC and PICPA, sometimes did not penalize independent auditors for poorly prepared audited financial statements.” 37

The following subsections use comparative regional analyses to identify and examine Philippine auditing practices regarding auditor appointment and dismissal, auditor independence, auditor reporting requirements, and auditor liability.

**Auditor Appointment and Dismissal**

Section 13 of the IFAC Code of Ethics (1996) outlines procedures for communicating between incoming and outgoing auditors. Moreover, ISA 315 states the requirements for communications between predecessor and successor auditors when a change of auditors occurs. It places the initiative for communication with the successor auditor who is required to make specific inquiry, after obtaining permission from the prospective client, of the predecessor auditor as to such matters as management integrity, management disagreements, and the reason for change in auditor. While Philippine Exposure Draft (ED) 19 is consistent with ISA 315, Rule 301 of PICPA’s Code of Professional Conduct precludes an auditor from disclosing confidential information without the client’s permission—this limits the effectiveness of this requirement. 38


Table 3: Auditor Appointment and Dismissal

<table>
<thead>
<tr>
<th>Factor</th>
<th>Philippines</th>
<th>Singapore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominating party</td>
<td>Management/ Directors</td>
<td>Shareholders</td>
</tr>
<tr>
<td>Appointing party</td>
<td>Management/ Directors</td>
<td>Shareholders</td>
</tr>
<tr>
<td>Party approving appointment</td>
<td>Board of Directors, shareholders, or both depending on the company’s bylaws with approval of BSP for commercial banks</td>
<td>Shareholders and the Monetary Authority of Singapore for financial institutions</td>
</tr>
<tr>
<td>Communication between outgoing and incoming auditors</td>
<td>ED 19 is consistent with ISA 315, however, this is effectively negated by other rules (see above).</td>
<td>Required before engagement is accepted</td>
</tr>
<tr>
<td>Auditors’ rights to defend position on dismissal or resignation</td>
<td>Letter filed with SEC stating nature of disagreement(s), for public companies</td>
<td>Representation to shareholders in writing or personally, and filed with the Registrar of Companies</td>
</tr>
<tr>
<td>Compensation on termination</td>
<td>None</td>
<td>Fees owing to outgoing auditor must be paid before incoming auditor can accept the engagement</td>
</tr>
</tbody>
</table>

Auditor Independence

The IFAC Code of Ethics for Professional Accountants (1996) states that accountants in public practice should be, and should appear to be, free of any interest that might be regarded as being incompatible with integrity, objectivity, and independence.\(^{40}\) ISA 220 and the Statement of Policy by the IFAC Council (1992) support periodic peer reviews. Furthermore, Section 8 of the IFAC Code of Ethics specifically relates to the objectivity of auditors with respect to their clients.


Table 4: Auditor Independence

<table>
<thead>
<tr>
<th>Factor</th>
<th>Philippines</th>
<th>Singapore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restrictions on relationships: personal, commercial, financial, or influential</td>
<td>Limits on personal, commercial, financial or influential relationships (Sec. 16 of Code of Ethics)</td>
<td>Some restriction on financial relationships</td>
</tr>
<tr>
<td>Restrictions on services provided by audit firm to audit client (other than conduct of audit)</td>
<td>None</td>
<td>Accounting, tax advice, consulting, financial and investment advice, corporate recovery</td>
</tr>
<tr>
<td>Rules to avoid lowballing</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Rotation of audit partners required</td>
<td>No</td>
<td>Every 5 years for listed companies</td>
</tr>
<tr>
<td>Safeguards to Objectivity:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Challenges to objectivity disclosed</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>• Quality reviews by peer audit firms</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>• Internal quality reviews</td>
<td>Required by SASP 8 (Control of Quality of Audit Work)</td>
<td>No</td>
</tr>
<tr>
<td>• Potential threats to objectivity monitored by third party</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>• Audit committees required</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Auditor Reporting Requirements

In 1949, the Committee on Auditing Standards and Procedures of the Philippine Institute of Accountants (now PICPA) suggested that the standard auditor report format of the American Institute of Accountants (now the AICPA), be adopted. The form of this standard two-paragraph report remained largely unchanged until 1994. A new three-paragraph report, similar to the US standard report, was required to be issued for all audit reports issued after 30 June 1994. This audit report form is consistent with IFAC requirements (ISA 700).

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Table 5: Audit Reporting

<table>
<thead>
<tr>
<th>Issue</th>
<th>Philippines</th>
<th>Singapore</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In Auditor’s Report:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Fraud or irregularities</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>• Illegal acts</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>• Internal controls and systems</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>• Maintenance of proper records</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Reporting to Other Parties:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Fraud or irregularities</td>
<td>Yes(^{44})</td>
<td>Yes</td>
</tr>
<tr>
<td>• Illegal acts</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>• Internal controls and systems</td>
<td>Yes(^{45})</td>
<td>No</td>
</tr>
<tr>
<td>• Maintenance of proper records</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Law requires standard forms of audit reports</strong></td>
<td>Yes (for public companies)</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Law specifies matters to be included in reports</strong></td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Standard forms of audit reports established by professional bodies</strong></td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Qualified audit reports due to uncertainties</strong></td>
<td>Yes(^{46})</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Auditor Liability**

Exposing auditors to civil liability creates strong incentives to raise quality and maintain independence. There must however be a balance between providing this incentive and avoiding a decline in audit services due to excessive litigation costs.\(^{47}\)

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\(^{44}\) Must be reported to management under Philippine Auditing Standards.

\(^{45}\) Must be reported to management under Philippine Auditing Standards.

\(^{46}\) Required if the disclosures of the mitigating factors including management plans for the going concern issue is inadequate under SASP 15 (para. 3).

Table 6: Auditor Liability

<table>
<thead>
<tr>
<th>Issue</th>
<th>Philippines</th>
<th>Singapore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional Sanctions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Warning</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>• Reprimand</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>• Fine</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>• Temporary suspension</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>• Permanent exclusion</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Legal liability cap between contract parties</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Contractual liability cap between contract parties</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Legal liability caps between contract parties and third parties</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

In the Philippines, auditor liability can be limited to an amount not exceeding triple the amount of the transaction plus actual damages (Sec. 63.1, Securities Regulation Code 2000: Republic Act No. 8799).

7. Public Accounting and Auditing Firms

Professional firms are regulated by the Securities and Exchange Commission (SEC)—the Board of Accountancy, through the Professional Regulation Commission (PRC), has recently begun to review and license accountancy firms. Accountancy firms cannot be corporations and the Revised Accountancy Law 1975 requires that all partners of accountancy firms must be registered Philippine CPAs. All of the large international accountancy firms are represented in the Philippines.

8. Issue Synopsis: Accounting and Auditing

Chapter VIII – Issues and Recommendations – identifies and describes constraints and proposes corrective actions. These include the following issues from this chapter:

- Financial institutions are required to adhere to extensive disclosure requirements as prescribed by BSP. BSP contends that it closely monitors compliance with these requirements. However, accounting disclosures for other sectors do not necessarily conform to stipulated regulations and standards.

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• Auditing requirements and practices differ from international and regional standards and norms in four areas: (i) auditor appointment and dismissal; (ii) auditor independence; (iii) audit reporting procedures; and (iv) exposure of auditors to liability.
III. Professional Infrastructure

This chapter describes the professional accountancy infrastructure in the Philippines, which comprises regulatory and professional bodies. The chapter is structured as follows:

1 – Introduction – describes the development of the accountancy profession.
2 – Professional Organization and Regulation – describes the laws and organizations that regulate the profession, the bodies that represent CPAs, and recent moves to ‘integrate’ the profession.
3 – The Certified Public Accountant (CPA) – sets out the requirements to gain and maintain a CPA license, and compares these against international guidelines.
4 – Professional Ethics – describes how ethical standards are prescribed and monitored.
5 – Quality Control and Assurance – sets out international guidelines on quality assurance and compares these to Philippine arrangements.
6 – Philippine Institute of Certified Public Accountants – describes the framework, membership, and activities of PICPA – which is the national accredited professional organization for CPAs.
7 – Other Professional Bodies – describes the composition and activities of other professional accountancy bodies in the Philippines.
8 – Relations between the Profession and the BIR – describes the coordination of activities between the BIR and the profession, including training and the development and implementation of legislation.
9 – Globalization and Liberalization Challenges – discusses the challenges posed by globalization and the GATS negotiations and how the profession is responding to these.
10 – Initiatives to Strengthen the Profession – describes initiatives to strengthen the profession.
11 – Issue Synopsis: Professional Infrastructure – summarizes the issues identified in this chapter.
1. Introduction

The Philippine accounting profession is (arguably) the oldest in South-east Asia.\textsuperscript{49} The beginning of public accounting practice can be traced back to a few British accountants who came to the Philippines in 1762-1763 to work on a contract basis—they started their own accountancy practices after their contracts expired. The activities of those accountants and their successors grew until accountancy was recognized as a profession with the enactment of the \textit{Accountancy Law} in 1923.\textsuperscript{50}

The \textit{Accountancy Law} 1923 established the CPA title for those who passed a written licensure examination. It also created the Board of Accountancy (BOA) to regulate the profession. Six years later, in 1929, CPAs organized the Philippines Institute of Certified Public Accountants (PICPA)—this makes it one of Asia’s oldest professional accountancy bodies.

In 1947, after the Second World War, the Institute was reorganized and registered as a corporation with the Securities and Exchange Commission (SEC). In 1972, a Commission on Integration was created to prepare for PICPA’s 50th anniversary. The Commission realized that PICPA members represented only around 20% of CPAs, as most CPAs worked outside public practice. In response, four sectoral associations were organized; the Government Association of Certified Public Accountants (GACPA), the Association of Certified Public Accountants in Commerce and Industry (ACPACI), the Association of Certified Public Accountants in Education (ACPAE), and the Association of Certified Public Accountants in Public Practice (ACPAPP). However, the ACPAPP’s formation was deferred until 1980.

In the past 7 decades, PICPA has contributed immensely to the accountancy profession’s development. Its achievements include: (i) establishing chapters throughout the Philippines; (ii) contributing to the development of technical standards; (iii) organizing and delivering innumerable workshops and seminars on professional matters; (iv) creating the Accounting Standards Council; (v) creating the Auditing Standards and Practices Council; (vi) organizing annual national conventions throughout the country since 1947; (vii) informing CPAs through the publication of the \textit{Accountants’ Journal} and the \textit{Accounting

Times; (viii) taking a lead role in establishing the Confederation of Asian and Pacific Accountants (CAPA) in 1957; and (viii) taking a role in establishing the ASEAN Federation of Accountants (AFA). PICPA members have actively contributed to the international accountancy profession. For instance, Washington Sycip served as the President of the International Federation of Accountants (IFAC) from 1982 to 1985.

There are now over 100,000 Philippine CPAs—each year around 14,000 candidates sit the CPA licensure examination, but less than 20% pass. In the absence of empirical evidence, various reasons have been advanced to explain these low passing percentages, including poor English language skills reflecting deficient basic education, lack of training materials and inadequate facilities.

Today, the Philippines accountancy profession is one of the world’s most vibrant. It is also one of the most restricted. In recent years, globalization has focused attention on raising standards to meet the challenge of increased competition. Meanwhile, concerns about CPA licensure procedures and apparently soft disciplinary procedures have undermined the Profession’s reputation. For example, the BOA has the power to suspend or revoke CPA titles. These powers are seldom exercised, however, and when they are the reasons are usually related to unprofessional conduct rather than the failure to properly execute the duties and responsibilities of an auditor.

Where relevant, this chapter compares Philippines professional arrangements with international standards and guidance (see Appendix 9).

2. Professional Organization and Regulation

A mixture of regulation and private involvement characterizes the organization of the accountancy profession (see Table 7). The key governing legislation is the Revised Accountancy Law 1975 (or Presidential Decree No. 692). The BOA, under the oversight of the Professional Regulation Commission (PRC), determines and prescribes the minimum requirements for CPA licensure. The following subsections describe the PRC, the BOA and initiatives to integrate CPAs within professional bodies.

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### Table 7: Organization and Regulation of the Profession

<table>
<thead>
<tr>
<th>Governing Laws</th>
<th>Revised Accountancy Law 1975:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Regulates the accountancy profession</td>
</tr>
<tr>
<td></td>
<td>• Creates the Board of Accountancy and prescribes its responsibilities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Regulatory Bodies (Government)</th>
<th>Professional Regulation Commission (PRC):</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Grants licenses to accountants</td>
</tr>
<tr>
<td></td>
<td>• Administers, implements and enforces regulatory policies of the accountancy profession, including the maintenance of professional standards and ethics</td>
</tr>
<tr>
<td></td>
<td>• Supervises the Board of Accountancy</td>
</tr>
<tr>
<td></td>
<td>• Determines and prescribes the minimum requirements leading to admission of candidates to the CPA examination</td>
</tr>
<tr>
<td></td>
<td>• Adopts such measures for the enhancement and the maintenance of high professional, ethical and technical standards of the accountancy profession</td>
</tr>
<tr>
<td></td>
<td>• Investigates violations of the Revised Accountancy Law 1975</td>
</tr>
<tr>
<td></td>
<td>• Promulgates decisions on cases subject to review by the PRC</td>
</tr>
<tr>
<td></td>
<td>• Suspends, revokes or reissues certificates of registration</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Professional Organizations (Nongovernment)</th>
<th>Philippines Institute of Certified Public Accountants (PICPA), Government Association of Certified Public Accountants (GACPA), Association of Certified Public Accountants in Commerce and Industry (ACPACI), Association of Certified Public Accountants in Education (ACPAE), Association of Certified Public Accountants in Public Practice (ACPAPP), National Federation of Junior Philippine Institute of Accountants (NFJPIA), Institute of Internal Auditors (IIA), Association of Government Internal Auditors (AGIA):</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Represent members’ interests</td>
</tr>
<tr>
<td></td>
<td>• Nominate members of the BOA (PICPA)</td>
</tr>
<tr>
<td></td>
<td>• Implements the Code of Professional Ethics (PICPA)</td>
</tr>
</tbody>
</table>
Professional Regulation Commission (PRC)
The PRC was created in 1973 by Presidential Decree No. 223. Its primary function is to supervise and regulate professions, including the accountancy profession. The Commission falls under the administrative supervision of the Civil Service Commission (CSC), an independent agency reporting to the Office of the President.\textsuperscript{54} The PRC Modernization Act 2000 provides for strengthened arrangements. The PRC is specifically responsible for (i) formulating, prescribing, and promulgating policies, rules and regulations, and standards on professional admissions and practices; (ii) administering the licensure examinations through the various professional regulatory boards (PRBs); (iii) issuing registration certificates to new professionals and renewing professional licenses in conjunction with the PRBs; (iv) conducting, through the PRBs, periodic inspections to ensure compliance with occupational and professional standards; (v) enforcing compliance with continuing professional education requirements; (vi) investigating and adjudicating complaints and cases against professionals; and (vii) supervising accredited professional organizations (APOs).

The Commission oversees PRBs and two specialty boards that exercise administrative, quasi-legislative, and quasi-judicial powers over their respective professions. These boards are responsible for (i) preparing licensure examinations; (ii) determining, prescribing, and revising course requirements; (iii) recommending measures to improve the professions; (iv) consulting with teaching institutions; (v) adopting and enforcing professional codes of ethics; (vi) administering oaths and issuing registration certificates; (vii) investigating violations of professional standards and adjudicating administrative and other cases against erring registrants; and (viii) suspending, revoking, and reissuing registration certificates. The boards are created by separate laws and their pronouncements are subject to review and approval by the Commission. PRB chairs and board members are recommended by the PRC and appointed by the President.\textsuperscript{55} Candidates for PRB positions are nominated by the respective APO.

The Commission’s current aims are: (i) enhancing the substantive content of licensure examinations; (ii) maintaining integrity in examination administration; (iii) reducing examination-result release times; (iv) fully implementing continuing professional education (CPE) through a mix of programs, sources, innovative delivery mechanisms

\textsuperscript{54} Executive Order No. 56 (9 February 1993).
\textsuperscript{55} Executive Order No. 496.
(including distance education), and closely monitoring the quality and integrity of CPE provision; (v) improving quality professional education by collaborating more closely with the Commission on Higher Education (CHED), APOs and PRBs; (vi) proactively participating in negotiations and implementation of the ASEAN Framework Agreement on Services (AFAS), World Trade Organization (WTO)-General Agreement on Trade in Services (GATS), among others; and (vii) reviewing and updating professional regulations.

The PRC has recently proposed that a register of Asia-Pacific accountants be established to reduce barriers to professional mobility within the region. The proposal has the support of BOA, CHED, and PICPA.56

Board of Accountancy (BOA)
The BOA is the PRB for the accountancy profession. Its seven members are nominated by PICPA (the APO), recommended by the PRC, and appointed by the President. In accordance with the Revised Accountancy Law 1975, the Board is responsible for supervising, controlling and regulating accountancy practices.57 The Board determines and prescribes the minimum requirements for the CPA examination. It also administers the examination and issues certificates to successful candidates. Furthermore, it investigates violations of the Revised Accountancy Law 1975 and, after due process, may suspend, revoke, or reissue registration certificates. Subject to the PRC’s approval, the BOA promulgates rules and regulations, and sets professional and ethical standards.

The BOA’s key objectives in 2000 were: (i) improving accounting education; (ii) improving understanding of the CPA examination system; (iii) achieving zero errors in CPA examination questions; (iv) achieving 100% control of examination test sheets; (v) revising the accountancy code of ethics; (vi) regulating foreign professions; (vii) developing a better curriculum and more responsive programs; (vii) promptly resolving legal cases; (viii) improving the accuracy of CPA listings; (ix) improving the regulation of registration of practicing accountants and firms; (x) improving records management; and (xi) obtaining International Standards Organization (ISO) certification.


57 Section 2 (Presidential Decree 692).
To achieve these objectives, the BOA included the following activities in its 2000 work program: (i) providing a list of nonperforming schools to CHED; (ii) conducting a continuing dialogue with schools, reviewers, examinees and students; (iii) conducting quarterly meetings with educators, CPA review schools and the PICPA education sector; (iv) requiring that test center supervisors account for and return 100% of test questions; (v) coordinating with PICPA and concerned bodies on revising the accountancy code of ethics; (vi) working closely with the PICPA Education Council and ACPAE, in collaboration with CHED to enhance the accountancy curriculum and to develop programs that reflect technological advances; (vii) coordinating with PICPA to develop an accurate CPA list.\(^5\) The Board’s 2000 targets were largely met. The process of reviewing the *Accountancy Law 1975* and the *Code of Ethics* for possible amendments is continuing. Forty-four cases were pending before the Board as at 31 October 2000.\(^5\)

**Professional Integration**

In 1973, the PRC accredited PICPA as the APO for CPAs.\(^6\) As the APO, the Institute was responsible for integrating all Philippine CPAs (i.e., making them PICPA members). Further resolutions, in 1984 and 1987, reinforced the integration initiatives.\(^5\) The election of a new PICPA Board of Directors and Officers in December 1988, under the Institute’s revised bylaws, signaled the completion of this integration exercise. There are four other professional organizations comprising CPAs engaging in the major accountancy sectors—the structure and activities of each professional body are described later in this chapter. These organizations coexist, and pursue compatible activities and objectives, with PICPA.\(^6\)

103,340 CPAs were registered with the PRC as at December 2000—but only about 20% are active (i.e., fee-paying) members of

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\(^6\) Presidential Decree No. 223 set out the requirements for accreditation.

\(^6\) PRC Certificate of Accreditation No. 6 (2 October 1973).

\(^6\) PRC Resolution No. 106 (12 July 1984), as amended by PRC Resolution No. 142 (4 March 1987).

professional organizations. Furthermore, it is estimated that the Philippines has at least 400,000 accounting graduates who are not CPAs. In 1999, PICPA launched a second concerted push for professional integration (i.e., compulsory CPA membership). Those CPAs who were not PICPA members were given until 31 July 2000 to join—if not, PICPA threatened to recommend against the renewal of their registration certificates. PICPA based its position on PRC Resolution No 106. This resolution prescribes the rules that govern the integration of the accountancy profession including (i) Rule 11 which provides that all persons whose names appear in the PRC’s CPA Register are members of the APO; and (ii) Rule 12 which stipulates that APO membership is a condition sine qua non to the continuing validity of a CPA’s registration certificate. On this basis, PICPA nonmembership should be sufficient cause for the revocation of a CPA’s registration certificate by the PRC.

Furthermore, a Bill was recently presented to the House requiring compulsory membership of professionals to their respective APO. Its existence indicates that PICPA’s interpretation that compulsory membership is required under existing regulations is questionable. In contrast to PICPA’s position, the BOA supported the PRC stand with respect to implementation of PRC Resolution No. 106, requiring PICPA membership for CPA registration certificate renewals. The BOA considers it best not to invoke the Resolution as House Bill 940 is still before the House.

3. The Certified Public Accountant (CPA) License

The GATS requires that criteria for recognition of professional qualifications may not exceed what is necessary to ensure the quality of service. Each country is expected to have a methodology for comparing professional qualifications and this must be applied in a fair and consistent

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64 Board of Accountancy (BOA). February 2001. Response to ADB RETA 5765 Study Questionnaire.
67 Section 26, Revised Accountancy Law 1975 (Presidential Decree No. 692), authorizes the PRC to adopt rules to effect the integration of all CPAs.
68 House Bill No. 940 (2000). An Act requiring compulsory membership of Filipino professionals to their respective accredited professional organization.
manner to all applicants. IFAC recommends that the appraisal process be founded upon the key components of a professional qualification, falling into: (i) education – entry standards/body of knowledge; (ii) examinations – tests of professional competence; and (iii) experience – relevant to the practice function. Furthermore, IFAC requires that continuing professional education (CPE) be a requirement for practicing accountants.

Table 8 compares Philippine CPA licensure requirements against IFAC, Indonesian, and Californian requirements. The Philippine CPA licensure requirements meet international guidelines in the first area (education). However, they fall short in the other three areas: examination, experience and continuing profession education. The following subsections examine these components.

Table 8: CPA Qualifications

<table>
<thead>
<tr>
<th>Requirement</th>
<th>International</th>
<th>Philippines</th>
<th>Indonesia</th>
<th>California (US)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>Recognized university degree program (IFAC: IEG 9, Para 26).</td>
<td>✓ A revised curriculum for the Bachelor of Science in Accountancy, which reflects IEG 9 requirements, is being introduced.</td>
<td>✓ Five-year masters degree, majoring in accounting, at accredited institution.</td>
<td>✓ Core course comprising 45 semester units of accounting, auditing or business-related subjects (a variety of other qualifications are accepted).</td>
</tr>
<tr>
<td>Examination</td>
<td>Yes, a significant portion of responses must be written (IFAC: IEG 9, Para 44).</td>
<td>✓ ✓ Yes, multiple-choice questions.</td>
<td>✓ Yes.</td>
<td>✓ Yes.</td>
</tr>
</tbody>
</table>

### Diagnostic Study of Accounting and Auditing Practices in the Philippines

<table>
<thead>
<tr>
<th>Requirement</th>
<th>International</th>
<th>Philippines</th>
<th>Indonesia</th>
<th>California (US)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experience</td>
<td>Minimum of 3 years practical experience in an appropriate, supervised environment (IFAC: IEG 9, Para 49).</td>
<td>None, although efforts are being made to introduce compulsory practical experience for auditors.</td>
<td>Minimum of 3 years practical experience in a public accounting firm or the state audit department.</td>
<td>2, 3, or 4 years prescribed experience, depending on education level.</td>
</tr>
<tr>
<td>Continuing professional education</td>
<td>Annual minimum of 30 hours, or 90 hours over each 3-year period, of structured learning activities (IFAC, ISAR).</td>
<td>None, Senate suspended the CPE requirement in 1999 on the basis that it infringed constitutional rights.</td>
<td>120 hours over 3 years with a minimum of 30 hours per year.</td>
<td>80 hours for each 2-year license renewal period (following first license renewal).</td>
</tr>
</tbody>
</table>

**IEG = International Education Guideline; IFAC = International Federation of Accountants; ISAR = UNCTAD Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting**

### Education

IFAC and the UNCTAD Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) have published guidelines on education requirements. The IFAC guidelines, such as IEG 9, summarize expectations. The ISAR guidelines are more useful in a practical sense as they suggest a detailed curriculum structure and contents.72

The Philippines is considering introducing an enhanced Bachelor of Science in Accountancy curriculum based directly upon IEG 9. The proposed curriculum fully meets international standards—its structure and implementation are described further in Chapter V (Accounting and Auditing Training).

### The CPA Licensure Examination

Around 14,000 candidates sit the CPA licensure examination annually. The examination is offered semi-annually in seven regional centers: Ma-

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nila, Baguio, Cagayan de Oro, Cebu, Davao, Iloilo, and Legaspi cities. Passing rates are low—of the 5,958 candidates who sat for the examination in May 2001, only 1,020 (17%) were successful. It should be emphasized that the Board of Accountancy does not set any predeter
dined national passing percentage. The published results are based on the actual registered performance of the candidates who sat for the l
icensure examinations.

“With all kinds of irregularities besieging our board examinations then [in 1992], it was the common perception that licenses could be bought, board ratings be ‘doctored’ and, to land in the ‘Top Ten’, one had only to have the right connections or pay the right fee. The transacting public thought that everybody and anybody in PRC had a price. Worse, the public began to doubt the proficiency of our professionals. Even local manning and overseas employment agencies doubted the credentials of professionals applying for deployment.” – Hon. Hermogenes P. Pobre – PRC Chair (1999)

The PRC initiated a program to fundamentally overhaul the professional licensure examination system in the early 1990s. Its objective was to restore credibility through minimizing corruption. The following actions were taken. First, the examination process was fully computerized from 1992 to 1994. Computerization now covers application processing, test question databasing, marking answers, and rating results. Second, processes were established to ensure the honesty and independence of board examiners. These included stricter screening of nominees and appointments, and ensuring that examiners had no connections with review centers.

The program can be judged an outstanding success on the following bases: (i) in a 1997 survey, 68% of professionals and 95 percent of school officials had a positive perception of the PRC; (ii) before computerization, examination results were not released for 6 months; they are now released within 18 hours; and (iii) services were extended to more regional centers; this meant that hundreds of thousands of examiners, students and professionals no longer needed to go to Manila to

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renew their licenses or apply for certification. International groups have commented that the program “all but limited the leakages in the system and strengthened the integrity of the licensing structure.”

Furthermore, the BOA now analyses the examination results by teaching institution (see Table 9)—over half of all institutions have a zero pass rate. The BOA analysis provides potential students with better information on which to select institutions. It also enables institutions to identify their relative standings. Those institutions with the poorest results are also provided with a helpful subject-by-subject analysis of results. As a consequence, institutions have replaced deans or department heads in order to raise standards. Finally, the analysis is presented to the Commission on Higher Education (CHED) so that corrective action can be taken where necessary.

Table 9: Top Institutions: May 2000 CPA Licensure Examination

<table>
<thead>
<tr>
<th>Institution</th>
<th>Number of Examinees</th>
<th>Pass Rate (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>University of the Philippines – Diliman</td>
<td>10–25</td>
<td>100</td>
</tr>
<tr>
<td>De La Salle University – Manila</td>
<td>51–99</td>
<td>69</td>
</tr>
<tr>
<td>University of Saint La Salle</td>
<td>10–25</td>
<td>54</td>
</tr>
<tr>
<td>Palawan State University</td>
<td>10–25</td>
<td>50</td>
</tr>
<tr>
<td>University of Eastern Philippines</td>
<td>10–25</td>
<td>50</td>
</tr>
<tr>
<td>University of the Philippines – Iloilo</td>
<td>51–99</td>
<td>42</td>
</tr>
<tr>
<td>San Beda College</td>
<td>26–50</td>
<td>40</td>
</tr>
<tr>
<td>Pamantasan ng Lungsod ng Maynila</td>
<td>51–99</td>
<td>37</td>
</tr>
<tr>
<td>University of Santo Tomas</td>
<td>100+</td>
<td>35</td>
</tr>
<tr>
<td>Saint Louis University</td>
<td>100+</td>
<td>33</td>
</tr>
<tr>
<td>Centro Escolar University – Manila</td>
<td>26–50</td>
<td>33</td>
</tr>
<tr>
<td>Mindanao State University – Iligan Institute of Technology</td>
<td>26–50</td>
<td>33</td>
</tr>
<tr>
<td>Central Luzon State University</td>
<td>26–50</td>
<td>31</td>
</tr>
<tr>
<td>Saint Louis College of Tuguegarao</td>
<td>26–50</td>
<td>31</td>
</tr>
</tbody>
</table>

The BOA released a revised CPA examination syllabus in January 1999. The new syllabus took effect beginning with the May 1999

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CPA licensure examinations. It contains the body of technical knowledge that a new CPA is expected to possess and the topics for the seven subjects that the examination covers. The radical improvements to the licensure examinations process are laudable. However, there are three issues of possible concern. First, each board member is assigned a subject for which they prepare questions and answers. To avoid leakage, there is no peer review process (i.e., examiners do not review each other's questions), which is sometimes reflected in the quality of questions. Second, it is probable that some CPAs who qualified before the licensure process was tightened did not meet the required standards. Third, the examinations are wholly multiple-choice in contrast to international requirements, which state

"An appropriate process of assessment of professional competence must exist or be established. A required component of the assessment process for individuals seeking to become qualified is a final examination, administered by, or with substantive input from, the professional body or regulatory authority. The examination must be comprehensive, require a significant portion of responses to be in writing, and be administered near the end of the educational and ... experience requirement."

Experience
Practical experience is not required to obtain a Philippine CPA license. This does not accord with international guidelines:

"An appropriate period of relevant experience in performing the work of professional accountants must be a component of a pre-qualification program. The period of experience may vary due to differences in the environment in which professional accountants offer their services. However, this period should be long enough to permit prospective accountants to demonstrate they have gained the knowledge, skills, and professional values sufficient for performing with professional competence and for continuing to grow throughout their careers. This objec-

80 Professional Regulation Commission: Board of Accountancy Resolution No. 03. 25 January 1999.
81 The syllabus was revised in accordance with E.O. No. 200 mandating the institutionalization of the full computerization of the licensure examinations administered by the PRC's various regulatory boards.
tive cannot normally be met in a period of less than three years.” Paragraph 49 – IEG 9.

Moreover, IFAC recommends that practical experience requirements must be considered when professional bodies seek mutual recognition of qualifications. The US CPA experience requirement differs between states and depends on academic qualifications. For instance the Californian Accountancy Act requires experience of between 24 and 48 months.

Continuing Professional Education (CPE)

IFAC and ISAR recommend a minimum of 30 hours CPE per year, or a minimum of 90 hours in every 3-year period, of structured learning activity. However, attempts to introduce mandatory CPE requirements have not been successful and efforts continue.

These efforts began in the mid-1990s when the PRC established the administrative basis for implementing CPE programs for professionals. The individual PRB CPE programs were established in 1995; CPE Councils were created soon after. The Government strengthened the operations of CPE Councils by attaching them to the PRC and providing personnel and funds. The Commission also simplified the procedures for accrediting CPE providers, for instance, government and nongovernment agencies, educational institutions, individuals, and businesses. Professionals were required to complete CPE before their licenses would be reissued. These moves met legal challenges. In one case, electrical practitioners successfully argued that mandatory CPE infringed constitutional rights. The battle ensued and the PRC issued Standardized Guidelines and Procedures for the Implementation of the CPE Programs for all Professions.

In 1999 the Senate temporarily suspended the requirement that professionals undertake mandatory CPE. The suspension remains in  

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84 Source: www.aicpa.org/states/uaa/digest.htm
86 Executive Order No. 266 (25 July 1995) and PRC Resolution No. 381 (1995).
87 Administrative Order No. 260 (March 1996).
88 PRC Resolution No. 96-436 (1996).
89 Supreme Court [G.R. No. 87134. January 20, 2000].
90 PRC Resolution No. 507 (1997).
place. PICPA continues to lobby the PRC to lift the suspension. PICPA recognizes the importance of mandatory CPE for CPAs. However, the PRC’s mandate extends across 43 professions and few of the other professions support mandatory CPE.

4. Professional Ethics

The Code of Professional Ethics, which was first promulgated by the BOA and approved by the PRC in 1978, has become part of PICPA’s bylaws. Members must comply with the Code, which is divided into five parts (see Table 10). The BOA most recently modified the Code in July 2000. The modification recognized the importance of the Internet and changed the Code of Professional Ethics to allow CPAs to create an Internet presence.

IFAC pronouncements on professional ethics include: the “Code of Ethics for Professional Accountants”, the “Statement of Policy of Council: Implementation and Enforcement of Ethical Requirements”, and “IEG 10: Professional Ethics for Accountants: The Educational Challenge and Practical Application”. The BOA is in the process of reviewing the Accountancy Law 1975 and the Code of Ethics for possible amendments—in this respect, it has compared the IFAC Code of Ethics with the present Philippine Code of Professional Ethics.

Table 10: Code of Professional Ethics Structure

<table>
<thead>
<tr>
<th>Rule Applicability</th>
<th>Rule Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>All CPAs</td>
<td>• General conduct</td>
</tr>
<tr>
<td></td>
<td>• Obligations to clients</td>
</tr>
<tr>
<td></td>
<td>• Obligations to employers and the public</td>
</tr>
<tr>
<td></td>
<td>• Expected professional attributes</td>
</tr>
</tbody>
</table>

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93 Professional Regulation Commission: Board of Accountancy Resolution No. 19, 19 July 2000.
## Rule Applicability Rule Coverage

| CPAs in Public Accounting | • Auditor independence (both in appearance and in fact)  
|                          | • Adherence to auditing standards  
|                          | • Prohibition of contingent fees, advertising, payment and acceptance of commissions |
| CPAs in Private Industry | Minimal additional coverage. |
| CPAs in Government Service | Minimal additional coverage. |
| CPAs in Educational Institutions | Minimal additional coverage. |

### PICPA Ethics Board

Article XVIII of the Institute’s Bylaws governs the Ethics Board’s structure, functions, powers and processes (see Appendix 12). The Board’s functions are to (i) ensure that ethical standards are widely discussed; (ii) review the code of professional ethics on an ongoing basis and recommend possible revisions; (iii) coordinate with other PICPA committees on ethical practices; and (iv) support the education by providing materials on professional ethics. Relevant sections of Article XVIII are as follows:

- Section four precludes a Board member from taking part in any case in which they are involved.
- The Board has jurisdiction over cases that involve (i) violations of any provisions of the PICPA Constitution and Bylaws; (ii) violations of any provision of the Rules of Professional Conduct of the Board of Accountancy; and (iii) any of the grounds provided by the Rules and Regulations of the Board of Accountancy for proceeding against a certified public accountant (Sec. 6).
- The Board may issue reprimands, suspend memberships for up to 5 years, expel a member from PICPA—the National Board of Directors must confirm suspensions and expulsions (Sec. 9).
- The Board has jurisdiction to hear cases within 5 years from the date of their commission to the date of filing the complaint (Sec. 11).
- The Board “shall take cognizance of cases which were committed after its operation as well as those which may be referred to it by the National Board of Directors.” (Sec. 14).
Monitoring and Enforcement of Ethical Standards

“Big auditing firms do not get sued because their interest is always protected through the influence they have on the Board of Accountancy (BOA). The presence of representatives from the big auditing firms on the BOA serves the personal interest of those firms... If cases of big auditing firms are filed with the Board, then it is just like saying that they are putting themselves on trial – which really negates the purposes of the Board. This is where the law has a loose end.”

– Former PRC Commissioner (1998)95

The Revised Accountancy Law 1975 (Article 3, Section 17) provides for the PRC (through the BOA) to initiate proceedings against a CPA on the grounds of (i) conviction by a court... of any criminal offence involving moral turpitude; (ii) immoral or dishonorable conduct; (iii) insanity; (iv) fraud on the acquisition of the certification of registration; (v) gross negligence or incompetence in the practice of his profession; (vi) addiction to alcoholic beverages or to any habit-forming drugs rendering them incompetent to practice their profession; (vii) false, extravagant or unethical advertisements wherein other things than their name, profession, limitation of practice, office and home address are mentioned; (viii) issuing an accountant’s certificate covering the examination of the client’s accounts without observing the necessary auditing standards; (ix) aiding or acting as a dummy of an unqualified or unregistered person to practice accountancy; (x) violation of any provision of this decree and the rules and regulations promulgated thereunder; and (xi) conduct discreditable to the accounting profession.

Furthermore, Section 23 of the Board’s Code of Ethics defines acts discreditable to the accounting profession. They are when a CPA, if in expressing an opinion or representation in financial statements that they have examined (i) fails to disclose a material fact known to them which is not disclosed in the financial statements but disclosure of which is necessary to make the financial statements not misleading; (ii) fails to report any material misstatement known to them to appear in the financial statements; (iii) is grossly negligent in the conduct of their examination in making their report thereon; (iv) fails to acquire sufficient information to warrant expression of an opinion, or the exceptions are sufficiently material to negate the expression of an opinion; and (v) fails to...

direct attention to any material departure from generally accepted accounting principles or to disclose any material omission of generally accepted auditing procedures applicable in the circumstances.

Unpublished PRC data shows that, from 1979 to 1997, 170 cases were filed against individual CPAs and one against an accounting firm. The three most cited grounds were dishonorable conduct (59%), immorality (30%), and unprofessional conduct (9%). Of the 171 cases filed, 48% were dismissed, 20% resulted in the defendant’s CPA license being revoked, licenses were suspended in 4% of cases; 2% of defendants were exonerated, and 1% were reprimanded. Those remaining were deferred or were pending judgment.96

No cases were filed against a CPA on the grounds of: gross negligence or incompetence in the practice of their profession; unethical advertisement; issuing an accountant’s certificate covering the examination of the client’s accounts without observing the necessary auditing standards; or conduct discreditable to the accounting profession. The SEC has, however, investigated prima facie cases of malpractice. Two examples are those involving Engineering Equipment Incorporated (EEI) and Victorias Milling Company (Vicmico). 97 Both cases centered on material misstatements in the companies’ certified financial statements.

In relation to EEI, the Securities Exchange Commission (SEC) wrote that “the auditors may have been involved or professionally negligent”.98 The SEC recommended a 1-year suspension of the auditing firm’s accreditation to appear for clients before the SEC, based on the grounds that the SEC relies upon certified financial statements in making decisions on applications filed by companies. 99 This recommendation was later overturned and the auditors reportedly fined P50,000—this penalty was not reported in the media. Nor did the PRC or the BOA investigate the auditing firm. 100 As for Vicmico, neither the PRC nor the BOA took action, while the SEC pursued the case. Furthermore, in the Vicmico case, the auditing firm later withdrew its audit reports for the financial statements in question.

96 Ibid.
97 Ibid.
99 Section 5, Revised Securities Act (Presidential Decree No. 902-A).
5. **Quality Control and Assurance**

“In the case of professional accountants in public practice, the implementation of appropriate quality control policies and procedures is the responsibility of each firm of practicing accountants. The task of encouraging and assisting firms of practicing accountants to maintain and improve the quality of professional services is primarily that of the member bodies in each country. IFAC believes that the member bodies have the responsibility to take appropriate steps to achieve that objective in the legal, social, business, and regulatory environment prevailing within their countries.” – IFAC (August 1999)\(^{101}\)

In comparison to international guidelines and norms, the Philippine accountancy profession places minimal emphasis on quality control assurance over professional practices. In this respect, IFAC suggests that member bodies should:\(^{102}\)

- adopt or develop quality control standards and relevant guidance that require firms of practicing accountants to establish the quality control policies and procedures necessary to provide reasonable assurance of conforming with professional standards in performing services. The nature and extent of a firm’s quality control policies and procedures depend on a number of factors, such as the size and nature of its practice, its geographic dispersion, its organization, and appropriate cost/benefit considerations. Accordingly, the policies and procedures adopted by individual firms will vary, as will the manner in which the policies and procedures themselves and compliance with them are documented.
- develop quality review programs designed to evaluate whether firms of practicing accountants have established appropriate quality control policies and procedures and are complying with those policies.
- establish quality review programs to evaluate whether firms of practicing accountants have complied with relevant professional standards for assurance engagements.
- require firms of practicing accountants to improve their quality control policies and procedures, or in their compliance with those policies and procedures, when the need for improvement is identified. Where firms fail to comply with relevant professional stan-

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\(^{102}\) Ibid.
Member bodies should take such educational or disciplinary measures as indicated by the circumstances.

As a basic condition, IFAC emphasizes that implementation of an adequate self-regulatory program cannot be effected until firms of practicing accountants in a country are bound by an appropriate code of ethics and also by adequate standards governing accounting principles and engagements to provide professional services. The IFAC Code of Ethics for Professional Accountants, its International Standards on Auditing, and the International Accounting Standards (IASs) issued by the International Accounting Standards Board (IASB) all provide guidance for such standards.
Professional Quality Assurance in the People’s Republic of China

The People’s Republic of China provides an example of how a quality assurance program can be implemented. From July 1997 to March 1999, China conducted a nationwide rectification campaign of the accounting market. The campaign had four stages:

- **Self-Inspection.** In the 6 months to December 1997, around 6,700 accounting firms conducted self-inspections. The self-inspections covered around 50% of their 1996–1997 activities. Just under 1.5 million business reports were inspected; of these, 26% were considered to be either defective or in need of correction.

- **Focus Groups and Field Inspections.** In January 1998, local CPA Institutes established working groups. In the following 6 months, these working groups conducted field inspections of 5,800 firms.

- **Inspection Reviews.** From July to the end of October 1998, 192 people selected by the Chinese Institute of Certified Public Accountants (CICPA) reviewed the inspections conducted in stages I and II. The reviews focused on 405 accounting firms.

- **Reexamination.** From November 1998 to March 1999, CICPA reexamined the qualifications and status of qualified accountants and accounting firms. As a consequence of the campaign almost 12,700 individual CPAs were either forced to withdraw from the profession or were disciplined (25% of CPAs). Many of these were older members who had not passed the uniform accounting examination, and around 580 accounting firms withdrew from the profession or had their licenses cancelled. Warnings and punishments were issued to a further 2,000 accounting firms (43% of firms).

CICPA judged the campaign to be a success based on the following evidence. First, during the period of the campaign, 6,300 newly qualified accountants joined the profession. The net effect was to substantially improve the profession’s age structure and knowledge. Second, to address problems that were identified in the inspections, 85% of accounting firms substantially improved their internal-management practices; improved professional rules; implemented or improved quality-control systems; increased training; and in doing so, effectively eliminated the problems that had been identified. Third, in 1998, the level of “non-clean” audit opinions given on listed companies rose dramatically (to around 12% of audit reports) which (arguably) indicated improved professional quality and ethics. Fourth, the credibility of CPAs in the eyes of the public, as measured by a media survey, climbed from 45% in 1996, to 81% in June 1998.

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6. **Philippine Institute of Certified Public Accountants**

As already described, PICPA was founded in November 1929 and is the accredited professional organization (APO) for CPAs. It is a private body in the form of a registered nonstock corporation. The Institute comprises the national office (supported by a national secretarial), regions, chapters and members. Membership covers four sectors: education, commerce and industry, government and public practice. The Institute structure covers eight regions: Metro Manila, Northern Luzon, Central Luzon, Southern Luzon, Eastern Visayas, Western Visayas, Northern Mindanao and Southern Mindanao. Each region comprises a number of chapters (see Figure 4). The national office provides overall direction, the sectors identify the Institute’s professional needs and plan accordingly, and the regions and chapters implement policies and projects.

The Institute, though not a licensing body, performs three important functions: (i) implementing the Code of Ethics, promulgated by the BOA; (ii) overseeing the implementation of the CPE program; and (iii) publishing the pronouncements of the ASC and ASPC, the quarterly *Accountants’ Journal*, and the quarterly *Accounting Times*.\(^{105}\)


PICPA’s objectives are: (i) enabling the accountancy profession to discharge its public responsibilities more effectively; (ii) promoting and maintaining high professional standards in the accountancy profession; (iii) developing among its members high ideals of competence, ethical integrity and civic consciousness; (iv) fostering cordial and fruitful relations among its members; (v) elevating the accountancy education standards, (vi) guarding against the practice of the profession by unauthorized persons or entities; (vii) protecting and enhancing the integrity of the CPA registration certificate; and (viii) developing a treaty of friendship among its members.

In 2001, PICPA has chosen to base its vision on the Project Vision 2011 of the American Institute of Certified Public Accountants (AICPA). In relation to CPA core values, emphasis will be placed on (i) integrity and objectivity, (ii) professional competence and excellence, (iii) continuing education and life-long learning, (iv) broad business issues, and (v) commitment and social responsibility.106

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Membership and Activities
As at December 2000, PICPA had 20,323 active members (see Table 11). Active members are those who pay membership dues and receive information and services. Membership increased from 15,906 (by 28%) over the previous year due to the earlier-mentioned membership campaign.

However, new legislation is before the House, enabling professionals (including CPAs) to only have to renew their certification once (i.e., life-time certification). In accordance with Article XIV of PICPA’s Bylaws, membership dues are apportioned as follows: 35% to the chapter, 10% to the regional council, 10% to the sectoral council, and 45% to the national office.

Table 11: PICPA Membership

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<thead>
<tr>
<th></th>
<th>December 1999</th>
<th>December 2000</th>
<th>Change</th>
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<tr>
<td>Total Philippine CPAs</td>
<td>...</td>
<td>103,340</td>
<td>...</td>
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<tr>
<td>Not all CPAs are “active” members of PICPA (i.e., those who pay membership dues and receive information and services). Active members by Region:</td>
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<tr>
<td>• Metro Manila</td>
<td>8,538</td>
<td>10,721</td>
<td>26%</td>
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<tr>
<td>• Northern Luzon</td>
<td>906</td>
<td>953</td>
<td>5%</td>
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<tr>
<td>• Central Luzon</td>
<td>982</td>
<td>1,110</td>
<td>13%</td>
</tr>
<tr>
<td>• Southern Luzon</td>
<td>1,063</td>
<td>1,450</td>
<td>36%</td>
</tr>
<tr>
<td>• Eastern Visayas</td>
<td>1,646</td>
<td>1,881</td>
<td>14%</td>
</tr>
<tr>
<td>• Western Visayas</td>
<td>507</td>
<td>696</td>
<td>37%</td>
</tr>
<tr>
<td>• Northern Mindanao</td>
<td>631</td>
<td>613</td>
<td>-3%</td>
</tr>
<tr>
<td>• Southern Mindanao</td>
<td>840</td>
<td>1,041</td>
<td>24%</td>
</tr>
<tr>
<td>• International Chapters</td>
<td>209</td>
<td>392</td>
<td>88%</td>
</tr>
<tr>
<td>• Others</td>
<td>584</td>
<td>1,466</td>
<td>151%</td>
</tr>
<tr>
<td>Total Active Members of PICPA</td>
<td>15,906</td>
<td>20,323</td>
<td>28%</td>
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</tbody>
</table>

Structure and Committees
The Institute’s Bylaws determine its structure. PICPA has recently adopted amended Bylaws. Among other things, the new Bylaws place increased emphasis on membership responsibilities, the requirement to...
be a PICPA member, and the requirement to pay PICPA dues. The Institute has around 30 committees covering a wide variety of issues (see Appendix 10). PICPA’s Bylaws allow proxy votes to be cast in elections. On one hand, as mail ballots are not accepted, the proxy system enables votes to be cast from afar. On the other hand, it has been contended that accounting firms are able to cast block votes by “actively” seeking “proxy votes from ... staff members, alumni, and client members.”

International Affiliations
PICPA represents the Philippines accountancy profession in the world’s major accounting bodies. These include the International Federation of Accountants (IFAC), the International Accounting Standards Committee (IASC), the Confederation of Asian and Pacific Accountants (CAPA), and the ASEAN Federation of Accountants (AFA). PICPA most recently hosted the 11th AFA Conference in 1999, and the annual CAPA conference in November 2000.

Continuing Professional Education (CPE)
Seminars are regularly organized on technical subjects such as auditing, taxation, management services, accountancy education, accounting principles, and information technology. Members are able to earn CPE credits by attending these courses. The CPE on the Road program began in 1996. Its aim is to take the Institute’s training programs to the regions and to provide affordable training.

7. Other Professional Bodies

Government Association of Certified Public Accountants (GACPA)
GACPA was the first sectoral association organized in the Philippines. It represents accounting professionals working in various government agencies nationwide (see Figure 5). The association was registered with the SEC on 18 February 1972. With 17,000 members, the association is now the country’s biggest sectoral CPA organization. Its objectives are:

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108 Philippines Institute of Certified Public Accountants (PICPA). 2001. Amended Bylaws. Article V ss. 6,12; VI s. 1.
(i) promoting high standards of technical competence and professionalism among its members; (ii) promoting the use of state-of-the-art accounting practices in government; (iii) fostering cordial, harmonious and fruitful relationships among government CPAs; (iv) providing benefits to all members; and (v) promoting outreach programs and community relations-enhancement activities that benefit members in particular, and the community in general.\(^{111}\)

GACPA organizes and conducts a range of professional development programs covering ethics, information technology, management, accounting, auditing, and taxation. The association plans to (i) improve planning through workshops; (ii) formulate policies and guidelines to improve professionalism; (iii) expand and extend membership; (iv) continue to implement social action programs; (v) improve the provision of training; (vi) enhance the Association’s professional image through the construction of a national headquarters; (vii) continue to support scholarship programs for members and dependents; (viii) continue with the tree-planting project; and (ix) lobby for increased representation in PICPA.\(^{112}\)


\(^{112}\) Perez, Nestor P. (GACPA President). 2000 February 21. Inaugural Address during the First Membership Meeting and Induction of Year 2000 Officers and Directors.
In 1978, six major accounting firms decided to organize themselves into what would eventually become the Association of Certified Public Accountants in Public Practice (ACPAPP). ACPAPP filed its Articles of Incorporation and bylaws with the SEC in November 1980—theese were approved and registered in December 1980. The association provides a range of services to members. These include technical updates and seminars on accounting and auditing standards; dissemination of current exposure drafts on accounting and auditing standards; and dissemination of recently issued rules and regulations from the BIR, SEC, BSP, and other government agencies. A monthly newsletter, the ACPAPP Bulletin, is issued to all members.

In 1998, the association began a reorganization process. Steps included amending its bylaws, and adopting a new membership structure that includes both institutional and individual members. ACPAPP

Figure 5. Organizational Distribution of GACPA Members (1998)

Association of Certified Public Accountants in Public Practice (ACPAPP)\textsuperscript{114}


\textsuperscript{114} Primary Source: www.acpapp.com.ph
intends to strengthen itself by (i) providing services that enhance members’ professional development; and (ii) being a more active advocate for members’ interests, high professional standards, and high ethical standards. The association has committees on Accounting Standards, Auditing Standards and Practice, Ethics, Meetings and Program, Membership Development, Publications, and Tax Practice.

The association is governed by Articles of Incorporation. ACPAPP membership is open to individual and institutional (accounting firm) members (individual members who have left public practice but would like to remain members of ACPAPP may be admitted as associate members): (i) individual membership applicants must hold valid CPA certificates, have been in public practice for at least 3 years after qualifying as a CPA, and must be a partner or staff or sole proprietor of an institutional member; and (ii) institutional membership applicants must have been in public practice for at least 3 years; and must have at least three personnel, including at least one CPA. Once admitted, at least one of its personnel must become an individual member. 115

ACPAPP has 210 individual members and 70 institutional members. 116 To accomplish its goals, ACPAPP needs a strong internal organization, staffed by full-time personnel, with an administrative structure that can efficiently and effectively run the day-to-day affairs of the Association. Furthermore, ACPAPP must have funds and resources to support its operational needs. The first steps in carrying out these plans were taken in 1999 when ACPAPP hired an Executive Director and set separate and graduated membership dues (based on firm size) for institutional members. There is now a strong effort to increase membership by searching for active practitioners who are as yet non-ACPAPP members and inviting them to join ACPAPP.

Association of Certified Public Accountants in Commerce and Industry (ACPACI)117

ACPACI represents CPAs working in commerce and industry. It was established in 1978 and sponsors the award of Outstanding Accounting Students in the Philippines.

116 Source: www.acpapp.com.ph
117 Source: www.macrod.com/acpaci/
Association of Certified Public Accountants in Education (ACPAE)
ACPAE represents accountancy educators. It was established in 1978 and is involved in curriculum development. For instance, it is involved in the proposed revision of the accountancy program curriculum, including the introduction of the 4-year Bachelor of Science in Accountancy Technology (in consultation with PICPA, BOA and CHED). In 2000, ACPAE and PICPA conducted an accounting education conference, which 300 accounting teachers, from 115 colleges and universities, attended. The ACPAE supports the annual Accounting Teachers’ Conference. These conferences began in 1993 and provide an opportunity for accounting teachers to share experiences and examine educational issues.

National Federation of Junior Philippine Institute of Accountants (NFJPIA)
NFJPIA, the national organization of Accountancy students, was created in 1983 under the auspices of PICPA. It links students and their professional counterparts. The Federation is committed to developing the leadership skills, civic consciousness, discipline, academic excellence, and brotherhood among member schools. It has 273 accredited local chapters (colleges and universities) nationwide; each local chapter has from 30 to 2,000 members. It organizes two conventions each year, and also sponsors numerous seminars, symposia, workshops, conferences, tournaments, and other scholastic functions. 118

Institute of Internal Auditors (IIA)
This Institute is a 70,000-member international organization with chapters in around 120 countries and territories, including the Philippines. The Certified Internal Auditor (CIA) program was first offered in 1974 in the US. CIA examinations are held twice each year on a worldwide basis. Philippine CPAs are exempt from part IV of the CIA exam.

Association of Government Internal Auditors (AGIA)
AGIA was first organized in 1959. The Internal Auditing Act 1962 (RA 3456) introduced internal auditing requirements to the national government. A 1965 amendment (RA 4177) extended the Act’s coverage to government owned and controlled corporations (GOCCs), and local government units (LGUs). In 1992, President Aquino directed that government internal-control systems be strengthened (AO 278). The AGIA,

118 Primary source: www.jpia6.tripod.com/national
among others, was instructed to ensure that internal audit practices, methods, and procedures be improved through continuing education and be conducted in accordance with internal auditing standards. The Association represents internal auditors in government and promotes their professional development. It had 1,177 members at January 1999.

8. **Relations between the Profession and the BIR**

The Bureau of Internal Revenue (BIR) discusses its plans and targets with PICPA on a regular basis—these were, for instance, the main themes at PICPA’s March 2000 Membership Meeting, which the BIR Commissioner attended as guest of honor. The BIR works with PICPA on a range of matters. For example: drafting the accelerated depreciation scheme prescribed by the Comprehensive Tax Reform Program (CTRP), and drafting revenue regulations to implement certain provisions of the CTRP, including the net operating loss carry over, the minimum corporate income tax, the improperly accumulated earnings tax, and the fringe benefit tax.

In 1999, the BIR required that tax agents must be accredited. The tax agent accreditation requirement took effect from 1 January 2001, after which “all returns, statements, reports, protests, ruling requests, official correspondence, and other papers filed on behalf of a taxpayer shall bear the following information below the signature of the accredited tax representative: (i) for CPAs: taxpayer identification number and certification number, date of issuance, and date of expiry; and (ii) for members of the Philippine Bar: taxpayer identification number and attorney’s role number or accreditation number.”

In January 1999, PICPA signed an agreement with BIR to implement a Tax Awareness Program. The agreement recognized the importance of keeping abreast with taxation developments. Under the agreement, PICPA agreed to (i) host a workshop on income tax for practitioners, educators and BIR officials; (ii) conduct 16 regional tax conferences; (iii) hold echo seminars in chapters not covered by the conferences; (iv) assist BIR offices

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122 BIR Correspondence to PICPA. 15 June 2000.
123 BIR Commissioner Request to PICPA Tax Committee. 13 June 2000.
124 Bureau of Internal Revenue (BIR): Revenue Regulations 15-99; Section 13.

74
to disseminate information during the tax filing season; and (v) publish tax information in the Accounting Times and the Accountants’ Journal. The Institute also agreed to publish the PICPA Tax File—a compendium of tax laws, regulations and rulings. The BIR agreed to provide resource persons, provide seminar materials, and assist in organization. The Tax Force, which was created as a response, comprises members of PICPA’s Committee on Taxation and top officials from the BIR. The Tax Awareness Program organized a series of regional tax conferences focusing on topics such as the Economic Recovery Assistance Program (ERAP); Tax Reform Act; minimum corporate income tax; tax treatment of the sale, transfer or exchange of real property; tax forms; tax deadlines; and tax filing.125

9. Globalization and Liberalization Challenges
When the Uruguay Round of trade negotiations was agreed in 1994, measures to liberalize trade in services were included for the first time through the adoption of the General Agreement on Trade in Services (GATS). The World Trade Organization (WTO) created a Working Party on Professional Services (WPPS), which was instructed to give priority to reviewing the international operation of services in the accountancy sector and in determining how a more liberal regime might be introduced.

IFAC welcomed these initiatives and appointed a special GATS task force to monitor the WPPS's work, to comment on proposals, and to put forward proposals on how best to achieve liberalization. The WPPS's work program is addressing three areas: (i) international standards; (ii) mutual recognition of qualifications as a means of promoting greater mobility among qualified accountants; and (iii) rules regarding domestic regulation of the profession, which are usually the greatest barrier to the free provision of services – while domestic regulations are needed to protect the public, there is a danger that they can become protectionist. In December 1996, trade ministers issued a declaration encouraging the completion of IASs by IFAC, IASC, and IOSCO. This was achieved in 2000.

The Philippines is involved in the GATS negotiations. It is also a party to, and has corresponding obligations under, several other international memberships and agreements that are relevant to the accountancy profession including IFAC and the Asia Pacific Economic Council (APEC).

Restrictions on the Accountancy Profession

Table 12 presents the findings of a study that compared restrictions on accountancy services across countries. The domestic index quantifies the restrictions affecting the establishment and ongoing operations of domestic service providers. The foreign index measures the restrictions facing foreign service providers when establishing and conducting operations in the local market. Of the 34 countries surveyed, the Philippines had the most restricted environment for foreigners, and the second most restricted domestic environment (see Appendix II).

The Philippines places restrictions on nationality and residency requirements, partnership and investment restrictions, economic need tests, and lack of recognition of foreign qualifications. In particular, several fundamental restrictions need to be removed to achieve greater benefits of the business community and the general public through wider choices in the engagement of service providers within the accountancy sector. These include (i) restrictions on firm ownership and control; (ii) the legal form under which firms can provide services across borders; (iii) residence requirements; (iv) quantitative restrictions on the number of foreign accountants who may be employed by a firm; (v) membership requirements of a particular domestic professional body prior to being issued a practicing license; (vi) local educational requirements; (vii) restrictions on remittance of earnings; (viii) restrictions on technology and information exchange; and (ix) “buy national” government policies.

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Table 12: Restrictions on Accountancy Services

<table>
<thead>
<tr>
<th>Index</th>
<th>Low</th>
<th>Medium</th>
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<tbody>
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<td>Domestic</td>
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Foreign Index:

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<td>Turkey, United States</td>
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Specific restrictions include (i) No foreign accountants shall be admitted to examination, be given a registration certificate or be entitled to any of the rights or privileges under the BOA law unless their country of citizenship specifically permits Filipino accountants to practise within its territorial limits on the same basis or citizens of such country (Section 42, CA 294 on Foreign Reciprocity); (ii) The Philippine Constitution provides that the practice of profession in the Philippines shall be limited to Filipino citizens save in cases prescribed by law (Article XII, Sec. 14); (iii) Article 40 of the Labor Code, as amended, provides that: "Any alien seeking admission to the Philippines for employment purposes and any domestic or foreign employer who desires to engage an alien for employment in the Philippines shall obtain an employment permit from the Department of Labor and Employment. The employment permit may be issued to a nonresident alien or to the applicant employer after a determination of the non-availability of a person in the...

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Philippines who is competent, able and willing at the time of application to perform the services for which the alien is desired; and (iv) Republic Act No. 5181 requires 3 years of residence in the Philippines before foreigners can practice their profession.

There are no automatic recognition or mutual recognition agreements between the professional bodies and their counterparts in other countries. Furthermore, the domestic profession is largely closed to foreign participation, although international firms are able to establish correspondence relationships with local firms but are barred from direct investment.

The Philippine Negotiations Approach

On 1 January 2000, negotiations began on the GATS in Geneva. The GATS will determine what steps shall be taken to liberalize global accounting practices. The Department of Foreign Affairs is leading the Philippine negotiation team. The Philippines has made no commitments under GATS (either horizontal, vertical, or Most Favorite Nation exemptions) with respect to accountancy. The Philippines is also participating in the ongoing APEC negotiations under the ASEAN Framework Agreement on Services. It has submitted its initial package of commitments for the second round of negotiations covering business services, professional services and telecommunications. The Philippines is approaching the negotiations through supporting the use of Mutual Recognition Agreements (MRAs) particularly within the ASEAN area.

In December 1995, ASEAN members entered into an agreement to promote preferential trade in services, including business services. Under the accord, ASEAN member countries agreed to liberalize trade in services by substantially eliminating all existing discriminatory meas-
ures and market access limitations among members and prohibiting the enactment of new restrictions or limitations. Members also agreed to mutual recognition of each other’s licensing or certification requirements for service suppliers.

One study has found that, while Philippine professionals accept the need to liberalize, negative perceptions do exist including (i) a view that liberalization is another form of colonization; and (ii) a need to correct the present situation whereby foreigners are favored over their Filipino counterparts before they are given access to the local market (a specific example is in the area of consultancy where foreign consultants receive higher professional fees than their Filipino counterparts whereas Filipinos working abroad receive lower professional fees compared to their foreign counterparts). PICPA appears to support continued protection of the domestic profession as evidenced by the Institute’s President’s call in March 2000 for “PICPAns to be united in combating the effects of globalization in the practice of their profession”.

Three initiatives could be taken to liberalize practices including (i) congressional initiatives—for instance, the amendment of the Accountancy Law; (ii) administrative changes—for instance amendment of the Code of Ethics; and (iii) private sector initiatives that do not require government approval. In this respect, the following Bills are pending in relation to the Philippine’s WTO commitments: Senate Bill No. 1271 (2000) (The Professional Regulation Commission Modernization Act). This Bill is consistent with the WTO commitment to elevate certain licensed professions to world-class standards. It aims to ensure more effective and efficient implementation and administration of the regulatory policies in the conduct of different professional examinations. Specifically, it seeks to address defects in Presidential Decree No 23 (which created the PRC in June 1973), and which except for a minor amendment introduced by Presidential Decree No 657, had not being amended for 23 years. The Bill will shortly become law, as all that remains to be done is the ratification of the bicameral conference committee report before it is sent to the President for approval.

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10. Initiatives to Strengthen the Profession

In 2000, PICPA focused on (i) amending the Accountancy Law 1975 to support membership growth; (ii) fully computerizing operations; (iii) reviewing and amending the Institute’s Bylaws; (iv) refining a proposal for PICPA to administer examinations to accounting graduates and unsuccessful CPA examinees to make them Registered Accountants to be accredited with the BIR, SEC and BOA; and (v) promoting the field of environmental accounting. In 2001, PICPA is focusing on three areas. First, undertaking policy reforms including (i) improving policy formulation, deliberation, and implementation through the use of sectoral clusters and feedback loops; (ii) strengthening development and training policies; and (iii) preparing structural and organizational changes that require changes in bylaws, the Accountancy Law 1975, and the Code of Ethics. Second, strengthening professional development by (i) continuing progress on establishing the Power Knowledge Institute; (ii) establishing a technical resource pool; (iii) improving library facilities and resources; (iv) extending development forums to Luzon, Visayas, and Mindanao; (v) improving the curriculum and re-tooling CPAs; (vi) enhancing the Institute’s Internet site; (vii) updating publications; and (viii) mandating the inclusion of professional development issues in the agendas of chapter meetings. Third, increasing the Institute’s focus on social responsibility.

11. Issue Synopsis: Professional Infrastructure

Chapter VIII—Issues and Recommendations—identifies and describes constraints and proposes corrective actions. These include the following issues regarding the Philippines’ professional accountancy infrastructure:

- Academic requirements for the Philippine CPA title meet international standards, but the title compares unfavorably with international guidelines and norms in three aspects: (i) examination content; (ii) practical experience requirements; and (iii) continuing professional education. For instance, once they have passed the CPA licensure examination, a Philippine CPA may conduct an audit and sign an audit opinion, even though they may have no practical experience.

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• There are an estimated 400,000 accountants who are not CPAs. These accountants do not have professional representation, for instance, as accounting technicians.
• The introduction of tax agent accreditation by the BIR seems unnecessary, as anecdotal evidence links this requirement with rent-seeking behaviors.
• The organizational assignment of licensure and monitoring roles appears to sub-optimal.
• Ethical standards differ from international guidelines. Moreover, enforcement is lacking. Furthermore, quality assurance procedures over professional practices do not accord with international guidelines or norms.
• The use of proxy voting in PICPA elections is open to manipulation.
• Despite efforts to make it so, membership of the Accredited Professional Body is not compulsory; only about 20% of CPAs are members. This limits quality control and educational efforts. It also undermines the financial position of professional bodies.
• The PICPA presidency is rotated among the four major regions on an annual basis. The President is not directly elected by members but is chosen by the National Board of Directors. This procedure ensures regional participation and representation but reduces accountability.
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.
5. Conformity with International Accounting Standards – examines differences between Philippine accounting standards and IASs.
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.
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. 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. 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.

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). ASC pronouncements apply to the financial statements of commercial, industrial

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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

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

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

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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.\(^\text{144}\)

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.

writing. This permission is subject to payment of permission fees and/or royalties to IASC.

The ‘Hexagon Device,’ ‘IAS,’ ‘IASC,’ and ‘International Accounting Standards’ are Trade Marks of the International Accounting Standards Committee and should not be used without the prior written approval of the International Accounting Standards Committee.”

– IASC Copyright and Trademark Notice (2001)

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”.

145 Source: www.iasc.org.uk.
Table 14: Philippine SFASs as at 31 January 2001

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

Sources:
<table>
<thead>
<tr>
<th>No.</th>
<th>Title</th>
<th>Parentage</th>
<th>Approved</th>
<th>Effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>The Equity Method of Accounting for Investments in Common Stock</td>
<td>APB 18</td>
<td>1984</td>
<td>1984</td>
</tr>
<tr>
<td>11A</td>
<td>Deferral of the Effective Date of SFAS 11, The Equity Method of Accounting for Investments in Common Stock</td>
<td>...</td>
<td>1986</td>
<td>1986</td>
</tr>
<tr>
<td>12</td>
<td>Revaluation of Property, Plant and Equipment Through Appraisal</td>
<td>...</td>
<td>1985</td>
<td>1985</td>
</tr>
<tr>
<td>13</td>
<td>Net Income or Loss for the Period, Fundamental Errors and Changes in Accounting Policies</td>
<td>IAS 8</td>
<td>2000</td>
<td>Jan 2001</td>
</tr>
<tr>
<td></td>
<td>[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]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Disclosure of Accounting Policies</td>
<td>APB 22</td>
<td>1986</td>
<td>Sep 1986</td>
</tr>
<tr>
<td>16</td>
<td>Related Party Disclosures</td>
<td>FASB 57</td>
<td>1986</td>
<td>Jun 1987</td>
</tr>
<tr>
<td>17</td>
<td>Accounting Changes</td>
<td>APB 20</td>
<td>1987</td>
<td>Dec 1987</td>
</tr>
<tr>
<td>18</td>
<td>Summary of GAAP on Stockholder’s Equity</td>
<td>US GAAP</td>
<td>1987</td>
<td>Dec 1987</td>
</tr>
<tr>
<td>19</td>
<td>Summary of GAAP for the Banking Industry</td>
<td>US GAAP</td>
<td>1987</td>
<td>Dec 1988</td>
</tr>
<tr>
<td>19A</td>
<td>Accounting for Investments in Debt and Marketable Securities of Banks (An amendment of SFAS No. 19)</td>
<td>FASB 115</td>
<td>2000</td>
<td>Oct 2001</td>
</tr>
<tr>
<td>No.</td>
<td>Title</td>
<td>Parentage</td>
<td>Approved</td>
<td>Effective</td>
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<tr>
<td>-----</td>
<td>-------------------------------------------------------</td>
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</tr>
<tr>
<td>23</td>
<td>Accounting for Income Taxes</td>
<td>FASB No. 109</td>
<td>1994</td>
<td>Jan 1995</td>
</tr>
<tr>
<td>27</td>
<td>Accounting and Reporting for the Non-Life Insurance Industry</td>
<td>FASB 60 &amp; FASB 113</td>
<td>1997</td>
<td>Dec 1998</td>
</tr>
<tr>
<td>28</td>
<td>Revenue</td>
<td>IAS 18</td>
<td>1997</td>
<td>Jan 1998</td>
</tr>
<tr>
<td>29</td>
<td>Earnings Per Share</td>
<td>IAS 33</td>
<td>1998</td>
<td>Jan 1998</td>
</tr>
<tr>
<td>31</td>
<td>Segment Reporting</td>
<td>IAS 14</td>
<td>2000</td>
<td>Jan 2001</td>
</tr>
</tbody>
</table>


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-

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ent 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. 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
- impairment of assets
- treatment of research and development costs
- accounting for leases
- accounting for employee benefits other than pensions
- the discounting of provisions
- accounting for an issuer’s financial instruments
- the requirement for annual impairment tests when the depreciable lives of goodwill or intangible assets exceed 20 years

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

- the fair value of financial assets and liabilities


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
  
- 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)
  
- directors set provisions on the basis of probability of outflows of resources, rather than there needing to be an obligation
  
- pension obligation calculations can use a choice of actuarial methods, and generally use a long-run discount rate
  
- past service costs must be amortized even if they are vested

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.

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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 ₱150,000 to submit audited financial statements to the BIR. 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. Furthermore, in the absence of a specific SFAS or tax rul-

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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


\(^{158}\) Ibid. p. ix.
changed once since its inception and other membership changes have been minimal. The Council was inactive for several years\textsuperscript{159} but resumed activities in 2001 with a new Chairperson.

**Table 15: Membership of the Auditing Standards and Practices Council**

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

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.

Table 16: Philippine SASPs as at 31 January 2001

<table>
<thead>
<tr>
<th>No.</th>
<th>Title</th>
<th>Approved</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Objectives, Scope and Responsibilities of an Independent Auditor in Undertaking an Audit</td>
<td>1987</td>
</tr>
<tr>
<td>2</td>
<td>Generally Accepted Auditing Standards</td>
<td>1987</td>
</tr>
<tr>
<td>3</td>
<td>Audit Engagement Letters</td>
<td>1987</td>
</tr>
<tr>
<td>4</td>
<td>Client Representations</td>
<td>1987</td>
</tr>
<tr>
<td>5</td>
<td>Superseded</td>
<td>...</td>
</tr>
<tr>
<td>6</td>
<td>Study &amp; Evaluation of the Accounting Systems &amp; Related Internal Controls in Connection with an Audit</td>
<td>1988</td>
</tr>
<tr>
<td>7</td>
<td>Audit Evidence &amp; Documentation</td>
<td>1988</td>
</tr>
<tr>
<td>8</td>
<td>Control of Quality of Audit Work</td>
<td>1989</td>
</tr>
<tr>
<td>9</td>
<td>Planning &amp; Supervision</td>
<td>1990</td>
</tr>
<tr>
<td>10</td>
<td>Audit Sampling</td>
<td>1991</td>
</tr>
<tr>
<td>11</td>
<td>Procedures to be Followed in the Review of Client Income, Withholding &amp; Value Added Tax Returns</td>
<td>1991</td>
</tr>
<tr>
<td>12</td>
<td>Fraud and Error</td>
<td>1991</td>
</tr>
<tr>
<td>13</td>
<td>Audit Manual for Commercial Banks</td>
<td>1990</td>
</tr>
<tr>
<td>14</td>
<td>Auditing in an EDP Environment</td>
<td>1994</td>
</tr>
<tr>
<td>16</td>
<td>The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern</td>
<td>1994</td>
</tr>
</tbody>
</table>

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 (IAPSs). The list of ISAs and IAPSs 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

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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)

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-

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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*.
V. Accounting and Auditing Training

This chapter describes accounting and auditing education and training. It is structured as follows:

1. Introduction – describes the historical development of accountancy education.
2. Educational Coordination – discusses the coordination of accountancy education within the Philippines.
3. Curriculum – sets out international guidance on accountancy education, describes the existing curriculum, and reviews proposed changes to the curriculum.
4. Education and Training Institutions – describes the providers of tertiary accountancy education.
5. Training for Lecturers and Professors – describes requirements for the continuing training of accountancy lecturers and professors.
6. Issue Synopsis: Accounting and Auditing Education and Training – summarizes the issues identified in this chapter.

1. Introduction

The American colonial period substantially influenced Philippine accountancy education arrangements. Business schools were initially established across the country to provide a skilled labor pool for government and business organizations. Eventually business education progressed to the stage when accounting courses were taught at university level. In 1916, the University of the Philippines began to offer accounting courses. Other pioneering institutions that launched accounting programs from 1916 to 1928 included Jose Rizal College, De La Salle College, the National University, and the Far Eastern University.162

Most accounting and auditing skills are generally considered to be developed through on-the-job practical training and work experience. That aside, educational standards, particularly at the undergraduate level determine the basic level of knowledge that new entrants to the accounting market have. The higher this level is, the faster that skill will be developed.

Today, the Philippine education system, and its graduates, is internationally and regionally recognized as being of a high standard – for instance, the Manila-based Asian Institute of Management is widely recognized for its high standards of education.

regarded as Asia’s premier business school. The top Philippine accounting faculties are also recognized for the caliber of their graduates and research publications.

2. **Educational Coordination**

Several laws and regulations govern accountancy education. First, the *Revised Accountancy Act 1975* created the Board of Accountancy (BOA) under the Professional Regulation Commission (PRC). The Board’s role in relation to education has already been described in Chapter III. The Board has recently established an Accounting Education Task Force to help it examine developments in the accountancy profession as they affect accountancy education. Second, the *Higher Education Act 1994* created the Commission on Higher Education (CHED). Among other things, CHED is responsible for (i) formulating and recommending development plans, policies, priorities, and programs on higher education; (ii) setting minimum standards for programs and institutes of higher education; (iii) monitoring and evaluating the performance of programs and institutions; and (iv) imposing sanctions for poor performance (e.g., subsidy reductions, withdrawal of accreditation, program termination and closures). Third, PICPA is involved in educational coordination through its representation on CHED’s advisory board and in the BOA.

The PRC is emphasizing linkages with educational institutions for monitoring performances of examinees from their respective schools. Initial steps have been taken to coordinate with the Commission on Higher Education (CHED) on reforms relating to curriculum, pedagogy, faculty development, and policies regarding student admission and retention. Accountancy educators are represented by the Philippine Association of Collegiate Schools in Business (PACSB); the Council of Deans for Accounting, Commerce and Secretarial Administrations; and the Association of Certified Public Accountants in Education (ACPAE).

3. **Curriculum**

The issuance of Department of Education, Culture and Sports (DECS) Order No. 5 (1991) established the Bachelor of Science in Accountancy (BSA) as a fully-fledged independent course. The CHED has since taken over responsibility for coordinating tertiary education from the DECS.
International organizations have issued guidance on accountancy education issues, including:

- **Quality Issues For Internet and Distributed Learning in Accounting Education.** This IFAC Education Committee discussion paper discusses the environment that encourages the design, development and delivery of high-quality Internet and distributed learning in global accounting education. It offers recommendations for assessing the quality of Internet education and distributed learning.\(^ {165}\)

- **Discussion Paper on Assistance Projects in Accountancy Education and Development.** This IFAC Education Committee discussion paper, which is based on the experiences of 15 IFAC member organizations, looks at some of the common aspects of successful aid and assistance projects and the impediments that can derail the process. It is meant to be of assistance to accountancy organizations and consultants involved in aid projects for the development of accountancy education, as well as potential donors.\(^ {166}\)

- **International Education Guideline 9: Accounting Education and Experience.** This IFAC guideline sets out high-level curriculum expectations.\(^ {167}\)

- **Guideline for a Global Accounting Curriculum and Other Qualification Requirements.** This UNCTAD report sets out requirements for the qualifications of professional accountants; and a guideline for national systems for the qualifications of professional qualifications.\(^ {168}\)

- **Global Curriculum for the Professional Education of Professional Accountants.** This UNCTAD report sets out curriculum requirements including organizational and business knowledge; information technology; and accounting and accounting-related knowledge.\(^ {169}\)

The existing Bachelor of Science in Accountancy (BSA) is a 4-year course. While it is generally consistent with international guidelines in


\(^{169}\) Ibid.
this area, the BOA and PICPA began to develop proposals for a revised accountancy curriculum in 1998. These proposals were driven by concerns over educational quality and the issuance of updated international guidance in this area (see above). CHED approved the revised curriculum in August 2001, which reflects relevant UNCTAD and IFAC guidance.

4. **Education and Training Institutions**

The Philippines had 164 public and 1,189 private higher education institutions as of September 2000. Of these institutions, 367 offered accredited BS in Accountancy programs.

The quality of these programs differs substantially; if assessed on the basis of graduate success in the CPA licensure examination. Zero-performing schools (i.e., those that had no successful candidates in the CPA Licensure examination) comprise around 50% of accredited institutions. Students at these schools are predominantly drawn from less wealthy families.

In the 1999–2000 academic year, CHED acted to phase out the accountancy programs of 54 schools. In addition, one school was warned and one school was referred to the Technical Panel for further action. The CHED process is continuing and should reduce the number of sub-standard schools offering accountancy programs.

5. **Training for Lecturers and Professors**

As a condition of offering accountancy programs, institutions must have a formal faculty development program. However, in some schools, continuing training for accountancy lecturers and professors is very limited. The absence of relevant materials is perceived as a constraint to staff development—most materials are local adaptations or reprints of US books. These books are based on US GAAP rather than international

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174 Ibid.
standards and practices. Furthermore, case studies based on local practices and conditions are rare.\textsuperscript{175}

6. **Issue Synopsis: Accounting and Auditing Education and Training**

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

- The proposed introduction of a 5-year curriculum would not necessarily raise standards—it would however disadvantage less wealthy students.
- BOA’s enhanced monitoring of accountancy programs provides a good basis for targeting improvement programs.

VI. Government Budgeting and Accounting

This chapter describes government budgeting, accounting and auditing arrangements. For the purposes of this report, “government” comprises national government agencies, local government units and government owned and controlled corporations. The chapter is structured as follows:

1 - Introduction – describes fiscal pressures and recent developments.
2 - Legal Framework for Government Accounting – sets out the key laws that govern government accounting and auditing arrangements.
3 - Organizational Roles and Responsibilities – describes the organizations that coordinate budgeting, accounting and auditing within government.
4 - Budgeting and Reporting Calendar – presents the annual timetable for budgeting and reporting processes.
5 - Accounting and Reporting Arrangements – describes accounting and reporting arrangements, including bases of accounting and the contents of financial reports.
6 - Accounting Information Systems – discusses the status of accounting information systems.
7 - Internal Auditing – describes internal auditing arrangements and requirements.
8 - Government Accounting Personnel – discusses the competency and availability of government accounting personnel, and recent legislative initiatives to reduce constraints.
10 - Anticorruption Measures – examines initiatives to reduce graft and corruption.
11 - Issue Synopsis: Government Budgeting and Accounting – summarizes the issues identified in this chapter and in other diagnostic studies.
1. Introduction

The Philippines realized fiscal surpluses between 1994 and 1997, prior to the Asian financial crisis. However, indicators have deteriorated significantly in the past 3 years. The Arroyo administration faces a worsening fiscal position. Unless the Government curbs expenses and improves revenue collection, the 2001 budget deficit could reach P200 billion ($4.2 billion). The weak fiscal position is creating tensions with multilateral development banks. Moreover, it restricts the Government’s ability to address infrastructure issues and poverty reduction. Furthermore, the Philippines experiences significant ongoing problems with corruption. With annual capital expenditure exceeding $3.5 billion, the procurement of goods and services, and implementation of infrastructure projects, by the Government present significant opportunities for graft.

Government accounting and auditing arrangements were formulated in 1947. They have many strengths including the use of double-entry bookkeeping, a mixed cash-accrual accounting base, a cadre of well-trained accountants, and potential access to a large external pool of trained accountants.

Public management arrangements are characterized by institutional and regulatory rigidities. Efforts to modernize the public sector have gathered pace in recent years. Among other things, the Government intends to (i) develop a Medium-Term Expenditure Framework (MTEF); (ii) introduce output and outcome performance measures and targets; (iii) overhaul procurement practices; (iv) introduce 3-year baseline budgeting; (v) modernize auditing practices; (vi) introduce computerized financial management information systems; and (vii) prepare for the introduction of full accrual accounting.

2. Legal Framework for Government Accounting

The Constitution of the Philippines 1987 mandates the keeping of government accounts, the promulgation of accounting rules, the audit of financial reports, and the submission of reports covering the Government’s financial operations and position.\textsuperscript{181} In particular, Article IX defines three constitutional commissions as being separate and independent bodies. These are the Civil Service Commission (CSC), the Commission on Elections, and the Commission on Audit (COA).\textsuperscript{182} The Constitutional provisions relating to COA are prescriptive—any reform effort must take them into consideration:

Section 2.(1) The Commission on Audit shall have the power, authority, and duty to examine, audit, and settle all accounts pertaining to the revenue and receipts of, and expenditures or uses of funds and property, owned or held in trust by, or pertaining to, the Government, or any of its subdivisions, agencies, or instrumentalities, including government-owned or controlled corporations with original charters, and on a post-audit basis: (a) constitutional bodies, commissions and offices that have been granted fiscal autonomy under this Constitution; (b) autonomous state colleges and universities; (c) other government-owned or controlled corporations and their subsidiaries; and (d) such nongovernmental entities receiving subsidy or equity, directly or indirectly, from or through the Government, which are required by law or the granting institution to submit to such audit as a condition of subsidy or equity. However, where the internal control system of the audited agencies is inadequate, the Commission may adopt such measures, including temporary or special pre-audit, as are necessary and appropriate to correct the deficiencies. It shall keep the general accounts of the Government and, for such period as may be provided by law, preserve the vouchers and other supporting papers pertaining thereto.

(2) The Commission shall have exclusive authority, subject to the limitations in this Article, to define the scope of its audit and examination, establish the techniques and methods required therefor, and promulgate accounting and auditing rules and regulations, including those for the prevention and disallowance of irregular, unnecessary, excessive, extravagant, or unconscionable expenditures or uses of government funds and properties.


Section 3. No law shall be passed exempting any entity of the Government or its subsidiaries in any guise whatever, or any investment of public funds, from the jurisdiction of the Commission on Audit.

Section 4. The Commission shall submit to the President and the Congress, within the time fixed by law, an annual report covering the financial condition and operation of the Government, its subdivisions, agencies, and instrumentalities, including government-owned or controlled corporations, and nongovernmental entities subject to its audit, and recommend measures necessary to improve their effectiveness and efficiency. It shall submit such other reports as may be required by law.

– Extracts from Article IX, Part D (The Commission on Audit)

A raft of laws and decrees are subsidiary to these constitutional provisions. They include the State Audit Code 1978,183 which specifies COA’s powers and responsibilities in more detail. These include (i) prescribing the chart of accounts; (ii) issuing accounting rules and regulations whenever the reporting requirements of the Budget Commission pursuant to a budget law affect accounting functions (S. 113); (iii) regulating the requirement for, and the submission of accounting reports;184 (iv) releasing claims in favor of government agencies; (v) authorizing funds transfers; (vi) approving property sales; and (vii) certifying funds availability.185 The Budget Reform Decree 1977186 defines “government” as being the national government, including the Executive, the Legislature, the Judiciary, and the Constitutional Commissions.

3. Organizational Roles and Responsibilities
The following organizations play central roles in budgeting, accounting and auditing arrangements.

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183 Presidential Decree No. 1445, originally promulgated on 11 June 1978.
186 Presidential Decree No. 1177.
The Commission on Audit (COA)
The COA audits the general accounts of the Government, promulgates accounting rules and regulations, and submits the annual financial report of the Government, its subdivisions, and agencies (including government owned or controlled corporations).

The Department of Finance (DOF)
The DOF is responsible for (i) formulating, institutionalizing, and administering fiscal policies in coordination with other concerned subdivisions, agencies, and instrumentalities of the government; (ii) managing the financial resources of government; (iii) supervising the revenue operations of all LGUs; (iv) reviewing, approving and managing all public sector debt; and (v) rationalizing, privatizing and ensuring the public accountability of corporations and assets owned, controlled or acquired by the Government. The DOF oversees three operating bureaus: the Bureau of the Treasury (BTr), the Bureau of Internal Revenue (BIR), and the Bureau of Customs.

The Bureau of the Treasury (BTr)
The BTr plays a pivotal role in the cash operations of the national government. It is responsible for (i) receiving and keeping national funds; (ii) managing and controlling disbursements of national funds; and (iii) maintaining accounts of financial transactions of all national government offices, agencies, and instruments.

Department of Budget and Management (DBM)
The DBM is responsible for the design, preparation and approval of the accounting systems of government agencies. It is also responsible for coordinating and implementing the annual budget process. Furthermore, the Department manages the process of cash disbursement as well as monitoring compliance with appropriations.

Development and Budget Coordinating Council (DBCC)
The DBCC comprises representatives from DBM, DOF, Bureau of Treasury, NEDA, and BSP. All agency budgetary requirements must pass through the Council. Its objectives are to (i) set budget parameters based on available resources; (ii) conduct budget hearings; and (iii) submit the resulting consolidated budget to the House of Representatives (particularly the Committee on Appropriations).

187 Under Executive Orders 127, 127-A and 292
4. **Budgeting and Reporting Calendar**

Figure 6 presents the indicative budgeting and reporting calendar for national government agencies.

**Figure 6: The Budget Calendar: National Government Agencies**

<table>
<thead>
<tr>
<th>Budget Stage</th>
<th>Month</th>
<th>t - 1</th>
<th>Budget year (t)</th>
<th>t + 1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Budget Preparation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget forums and associated consultations</td>
<td>Jan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Submission of Budget Proposals: GOCCs; departments (without regional units); and departments with regional units</td>
<td>Mar</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DBM evaluates agency budget proposals</td>
<td>Apr–May</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inter-agency coordination and consultation</td>
<td>Apr–Jan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial presentation of proposed budget to President and Cabinet</td>
<td>Jun</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Printing of budget documentation</td>
<td>Jul</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proposed national budget submitted to Congress</td>
<td>Jul</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>II. Legislation &amp; Authorization</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review and evaluation: budget hearings; floor deliberations; and Congressional approval</td>
<td>Aug–Nov</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approval of General Appropriation Act (GAA)</td>
<td>Nov</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>III. Budget Implementation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preparation of Agency Budget Matrix and submission to DBM</td>
<td>Dec–Jan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Release of funds (1st week of January and 10 days before)</td>
<td>Jan–Sep</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

188 Adapted from: Department of Budget and Management (DBM). 2001. Yearly Calendar of Activities. [www.dbm.gov.ph](http://www.dbm.gov.ph)
Budget Stage | Month       | t - 1 | Budget year (t) | t + 1
---|-------------|------|-----------------|------
the start of each quarter, thereafter)  
Obligation and disbursement of Funds | Jan–Dec | | |  
Submission of requests for budget adjustments or modifications | Jan–Oct | | |  
IV. Reporting  
Submission of quarterly financial and physical reports, including project implementation progress | Apr–Jan | | |  
Submission of quarterly reports to the President, House Committee on Appropriations, and Senate Committee on Finance | Apr–Jan | | |  

5. Accounting and Reporting Arrangements

In accordance with the Constitution 1987, fund, obligation and cash-disbursement-ceiling accounting methods are used in government. These methods are based on, and hence similar to, those used in the US government (before it began its move to accrual accounting). Table 17 presents an illustrative comparison of Philippine government and commercial accounting.

Table 17: A Comparison of Government and Commercial Accounting

<table>
<thead>
<tr>
<th>Issue</th>
<th>Government Accounting</th>
<th>Commercial Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sources of Accounting Practice and Procedures</td>
<td>Constitution, Laws, Rules and Regulations</td>
<td>Nature of business and management policies</td>
</tr>
</tbody>
</table>

## Control Mechanisms

<table>
<thead>
<tr>
<th><strong>Fund Accounting</strong></th>
<th>No Fund Accounting: The accounting of money collected is not separate and independent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Obligation Accounting</strong></td>
<td>No Obligation Accounting</td>
</tr>
<tr>
<td><strong>Cash Disbursement Ceiling</strong></td>
<td>No Cash Disbursement Accounting</td>
</tr>
</tbody>
</table>

## Accounting Basis

<table>
<thead>
<tr>
<th><strong>Mixed Accrual-Cash</strong></th>
<th>Either Cash or Accrual – but not a mixture of both.</th>
</tr>
</thead>
</table>

## Books of Account

| The general fund operations of the Government are recorded and controlled in three sets of books: (i) agency books; (ii) BTr books; and (iii) COA books. | Ordinarily only one set is kept, except where there are branch offices. |

## Accounts and Transactions

| Budgetary and real (actual) accounts are used. Estimates are recorded and accounted for. Fixed assets are depreciated – depreciation is accounted for as a reduction to the investment surplus account. | Nominal and real accounts are used. Estimates, if ever recorded, are considered as memorandum entries. Depreciation is considered an overhead expense. |

BTr = Bureau of the Treasury; COA = Commission on Audit;  

*Chart of Accounts*

Organizations are required to use a standard chart of accounts as prescribed by COA.

*Accounting Standards*

A variety of accounting standards are applied in the preparation of financial reports. These include the prescriptions set out by the Government Financial Statistics (GFS) system, and COA’s accounting rules.
chart of accounts. The Public Sector Committee (PSC) of IFAC began issuing International Public Sector Accounting Standards (IPSASs) in May 2000. IPSASs are based upon IASs. COA is planning the move to full accrual accounting. In this respect, it is considering the appropriateness of IPSASs as the basis for government accounting standards.

Financial Reporting
Government financial reports and statements, like commercial entities, are prepared based on official accounting records. In the case of government organizations, specific laws and regulations tightly prescribe the format and contents. The timing of reporting requirements is set out in Figure 6 (above). However, financial reports are generally not provided in a timely manner. The requirement to prepare and submit balance sheets and operations statements was introduced in 1979. Financial statements include (i) current assets, (ii) contingent assets, (iii) fixed assets, (iv) current liabilities, (v) contingent liabilities, (vi) allotted appropriations, (vii) income, (viii) invested surplus, (ix) contingent surplus, (x) national clearing account, (xi) the total surplus, and (xii) assorted notes to the accounts.\(^\text{190}\)

6. Accounting Information Systems
The national government accounting system is largely paper based. Financial reports from national agencies, including those with computerized systems, are manually processed and consolidated by COA. Existing computerized systems are of varying types.\(^\text{191}\) This variation is to be expected in such a diversified environment comprising a wide range of organizations with differing roles and objectives.

7. Internal Auditing
The Internal Auditing Act 1962 (RA 3456) introduced internal auditing requirements to the national government. A 1965 amendment (RA 4177) extended the Act’s coverage to government-owned and controlled corporations (GOCCs) and local government units (LGUs). In 1992, President Aquino directed that government internal-control systems be strengthened (AO 278) – the Association of Government Internal Aud-


tors (AGIA), among others, was instructed to ensure that internal audit practices, methods, and procedures be improved through continuing education and be conducted in accordance with internal auditing standards.\(^{192}\) The AGIA represents internal auditors in government and promotes their professional development. It had 1,177 members at January 1999.

8. **Government Accounting Personnel**

The Philippine civil service has grown dramatically over the past 4 decades—total government personnel more than doubled between 1960 and 1997, whereas the Philippine population grew by only 160\%. There were 1,250,000 government personnel in 1999 (see Table 18).

<table>
<thead>
<tr>
<th>Sector</th>
<th>Total</th>
<th>Permanent</th>
<th>Temporary</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Government Agencies</td>
<td>904,926</td>
<td>858,935</td>
<td>45,991</td>
</tr>
<tr>
<td>Government-Owned and Controlled Corporations</td>
<td>73,239</td>
<td>67,192</td>
<td>6,047</td>
</tr>
<tr>
<td>Local Government Units</td>
<td>272,345</td>
<td>249,895</td>
<td>22,450</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,250,510</td>
<td>1,176,022</td>
<td>74,488</td>
</tr>
</tbody>
</table>

The Civil Service Commission (CSC) manages personnel arrangements in the civil service. These arrangements are characterized by a high degree of regulation and rigidity. This rigidity has adversely affected the ability of government organizations to retain high-quality accounting personnel. Entrance salaries and conditions for government accountants compare very favorably with the private sector. Consequently, and in contrast with many other countries, government agencies have no difficulty attracting high-quality accounting personnel. These comparatively high salaries, combined with an oversupply of CPAs, enable government organizations to adopt very strict screening criteria.

However, the government salary structure is flatter than that of the private sector. Senior private sector accountants earn as much as 630\%...
more than their public sector counterparts. A major contributing factor is the mandated linkage between the President’s salary and government salaries—the former has not increased for some years. Consequently, senior government officials are difficult to retain. Moreover, these comparatively low salaries provide a supportive environment for graft and corruption. This constraint has been recognized and the following legislative measures prepared in response:

- **House Bill No. 9182 (2000).** An Act professionalizing the government accounting service to serve as a tool for effective management and control of government services, creating for the purpose the government accounting office under the DBM and for other purposes.

- **Senate Bill No 1333 (2000)** declares all employees holding permanent positions in various agencies performing accounting, budgeting, internal audit and other related government accounting functions as the vanguards of the Government’s financial and material resources. The Bill also exempts government accountants from the provisions of RA 6758 (*The Compensation and Position Classification Act 1998*) by providing them additional compensation and incentives such as subsistence allowances and longevity pay.

- **Senate Bill No 439 (2000)** seeks to professionalize government accounting services so that the profession may serve as a tool for effective management and control of government resources as it does for private business. It seeks to create the government accounting office under the DBM. Accurate, relevant, and timely financial information from the accounting system is essential for the monitoring of programs and projects, budget control, economic analysis, policy formulation, decision-making, and spotting possible areas for anomalies.

Personnel in government accounting positions are required to hold a CPA license. Despite their professional training and standing, their role is largely limited to bookkeeping, due to the complicated legal accounting framework and the absence of computerized systems. Little time is available for financial analysis and providing financial advice to management. In the view of a recent study:


“While the broad overview nature of this study did not allow an examination of the actual performance of government accountants, the consultants engaged in this project were impressed with the professionalism of the accountants they encountered. Provided that they receive adequate technical direction and training, we have no reason to believe that the general competence of accountants is an issue.”

9. Public Financial Management Reform Program

The objectives of the Government’s public financial management reforms are to (i) allocate and manage expenditures via a Medium-Term Expenditure Framework (MTEF); (ii) strengthen feedback mechanisms for budget formulation through enhanced budget and performance monitoring; (iii) improve the performance management environment by simplifying budgeting rules; (iv) introduce incentives for better performance management; and (v) increase management flexibility to ensure performance results. The reforms are based on a benchmarking study of the Philippine expenditure management system vis-à-vis its neighboring countries (Australia, Korea, Malaysia, New Zealand, Singapore, and Thailand) in terms of the three important expenditure outcomes: maintaining fiscal discipline, facilitating strategic prioritization at the oversight level, and enhancing the implementation efficiency of line agencies.

The reform program comprises several activities as follows:

- **Sectoral budget ceilings.** Six-year sectoral budget ceilings were introduced for the Fiscal 2000 budget. These sectoral budgets were developed with the multi-sector Planning Committees of the National Economic and Development Authority (NEDA). These Committees include representatives from Congress, local government, academia, the private sector and nongovernment organizations. The process involved various government implementing agencies in a participative and proactive manner.

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116
• **Three-year budget baselines.** The 6-year sectoral ceilings served as the basis for allocating resources to implementing agencies using a budget baseline approach.

• **Strengthening evaluation mechanisms.** First, locally funded projects will be subjected to the same approval process that applies to those funded from foreign sources. Second, the performance measurement will be mainstreamed. A set of performance indicators will have to accompany all new policies or projects that are submitted to NEDA or DBM. The ultimate objective is to foster an evaluation culture.

• **Improving government accounting and internal control.** Adopting private sector accounting and reporting practices, such as full accrual accounting will enhance the usefulness of accounting information. It will also enable organizational outputs to be meaningfully costed.

• **Separating accounting and auditing functions.** COA, the Philippines’ supreme audit institution, undertakes accounting, internal control and auditing functions in government. These groupings are incongruous.

• **Improving procurement procedures.** The DBM has launched the Electronic Procurement System to improve the efficiency and transparency of the government procurement process.200

10. **Anticorruption Measures**

ADB’s anticorruption policy has three objectives: (i) supporting competitive markets, and efficient, effective, accountable, and transparent public administration as part of ADB’s broader work in governance and capacity building; (ii) supporting promising anticorruption efforts on a case-to-case basis and improving the quality of ADB’s dialogue with its developing member countries on a range of governance issues, including corruption; and (iii) ensuring that ADB’s projects and staff adhere to the highest ethical standards.

The Government considers corruption a major concern. It has adopted a comprehensive approach towards improving governance as described in the Ten Point Jump Start Anti-Corruption Program. Efforts to eradicate corruption from the public sector focus rest on the effective implementation of existing initiatives and the pursuit of reforms towards reducing opportunities for corruption. These efforts include (i) deregulating and privatizing public functions; (ii) increasing transparency and public oversight of government and public sector functioning;

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(iii) vigorously pursuing efforts to root out corruption from those agencies and public processes such as procurement where they mainly exist through improved audit and other special measures; (iv) enabling better judicial functioning and equitable access to the legal system; and (v) reforming agencies that have particularly high interaction with the public such as the police.

11. Issue Synopsis: Government Budgeting and Accounting

Chapter VIII – Issues and Recommendations – identifies and describes constraints and proposes corrective actions. With minor departures, these include the following selected issues that have already been identified by the UNDP-sponsored studies:

- The Commission on Audit is responsible for promulgating accounting and auditing rules. These responsibilities are defined in Article IX of the Constitution 1987. The coexistence of these responsibilities is inconsistent with the concept of auditor independence.

- The absence of computerized accounting information systems, combined with complex accounting regulations (i) relegates the role of most government CPAs to that of highly qualified bookkeepers. Little time is left for value-added activities, such as financial analysis; and (ii) means that financial reports are rarely prepared in time to be useful for decision-making purposes.

- There is no consistent set of accounting standards for budgeting and reporting. Major reporting differences result.

- Auditors spend the majority of their time on compliance auditing (checking transactions). Minimal time is spent on financial attest auditing as more effort is applied to value-for-money audits.

- Comparatively attractive starting salaries attract high-quality personnel into government accounting. A flat earnings structure means that higher-level salaries are far from competitive. This creates retention problems and provides a supportive environment for graft and corruption.
VII. Donor Assistance

This chapter describes donor coordination mechanisms and discusses donor activities in relation to financial management and governance arrangements. It is structured as follows:

1 – Overview
2 – Coordination Mechanisms
3 – Asian Development Bank (ADB)
4 – World Bank
5 – United Nations Development Programme (UNDP)
6 – Canada (CIDA)
7 – Japan
8 – United Kingdom (British Council)
9 – United States (USAID)

1. Overview

As of December 1999, there were 185 ongoing donor-assisted projects in the Philippines involving investment of $12.2 billion. The consensus among donors is to promote more equitable sharing of the benefits of economic growth, reducing poverty at a faster pace, and enhancing the self-reliance and the service-delivery capacity of local governments.

Table 19: Overall External Assistance to the Philippines

<table>
<thead>
<tr>
<th>External Source (US$ million)</th>
<th>1994 – 1998 (annual average)</th>
<th>1999 Approvals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Loan/Credit</td>
<td>TA</td>
</tr>
<tr>
<td>Multilateral</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADB</td>
<td>403.8</td>
<td>6.3</td>
</tr>
<tr>
<td>UN System</td>
<td>..</td>
<td>18.6</td>
</tr>
<tr>
<td>World Bank</td>
<td>257.3</td>
<td>..</td>
</tr>
<tr>
<td>Subtotal</td>
<td>661.3</td>
<td>24.9</td>
</tr>
<tr>
<td>Bilateral</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>34.3</td>
<td>26.7</td>
</tr>
<tr>
<td>Canada</td>
<td>3.1</td>
<td>18.8</td>
</tr>
<tr>
<td>France</td>
<td>40.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Germany</td>
<td>24.1</td>
<td>15.4</td>
</tr>
<tr>
<td>Italy</td>
<td>..</td>
<td>1.0</td>
</tr>
<tr>
<td>Japan</td>
<td>967.3</td>
<td>85.4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>15.9</td>
<td>..</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1994 – 1998 (annual average)</th>
<th>1999 Approvals</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>7.0</td>
<td>34.3</td>
</tr>
<tr>
<td>Subtotal</td>
<td>1,092.3</td>
<td>181.7</td>
</tr>
<tr>
<td>Total</td>
<td>1,753.6</td>
<td>206.6</td>
</tr>
</tbody>
</table>

### 2. Coordination Mechanisms

Annual Consultative Group meetings provide an opportunity for the Government and donors to discuss the Government’s socioeconomic management to coordinate official development assistance. In addition to Consultative Group meetings and general coordination activities during programming and project processing, donors to the Philippines have been collaborating closely to improve the performance of the official development assistance portfolio, and in important strategic areas such as poverty reduction.

Efforts to improve project implementation have intensified in the past few years. In addition to undertaking a more thorough portfolio review exercise, a process of joint portfolio reviews with the World Bank and the Japan Bank for International Cooperation (JBIC) was initiated in 1999. Special emphasis is being placed on reducing under-performing projects, speeding up disbursement, and improving quality control at entry.

Government is also taking several important initiatives to improve portfolio performance. These include (i) improving coordination, supervision, and facilitation of implementation through strengthening the Presidential Committee on Flagship Programs and Projects; (ii) streamlining the procurement approval procedure; and (iii) strengthening legal and financial support for executing agencies to tackle right-of-way and land acquisition problems.\(^{202}\)

### 3. Asian Development Bank (ADB)

The Philippines became an ADB member in 1966. As of 30 June 2000, 150 loans had been made to the Philippines totaling $7,549 million. ADB has also provided technical assistance (TA) for 268 projects totaling $113 million by 30 June 2000.\(^{203}\) As of 30 June 2000, audited project accounts and financial statements were due for 34 loans, of which 26 were in

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compliance, 7 complied late by less than 6 months, and 1 did not comply (late by 6–12 months). The compliance level of the portfolio rose to 76.6 %, from 33.3 % during the first half of 1999 and from 77.1 % during the second half of 1999.  

Relevant Loan Projects

This study provided input into this program’s development, which is intended to support the development of stronger financial sector and institutions. Its key pillars are (i) strengthening the governance and enforcement capacity of the regulators, Bangko Sentral ng Pilipinas and SEC; (ii) introducing more transparency in the market; and (iii) encouraging equal enforcement of rules and regulations. Loan implementation is supported by TA 3773: Strengthening Regulatory Market Governance.

Loan 1363: Capital Market Development Program ($150 million: 1995)
The project’s objectives were to support financial and corporate governance reforms, particularly the development of capital market institutions with a view to enhancing transparency and predictability in the marketplace.

Relevant Technical Assistance

TA 31656-02: Strengthening Public Finance and Planning of LGUs–II ($0.100 million: 2002)
This proposed TA is intended to assist the Government to conduct more detailed analysis of its budget processing and project-monitoring mechanism.

TA No. 3310: Capacity Building for Procurement ($0.400 million: 2000)
This project strengthened institutions with procurement responsibilities.

Among other things, this TA has focused on reorganizing and strengthening the SEC.

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TA No. 3145: Strengthening Public Finance and Planning of Local Government Units ($0.870 million: 1999–2000)
This TA focused on strengthening LGU budgeting and finance capabilities.

4. The World Bank
The World Bank’s assistance is primarily for tax administration, financial market development, and supervision of financial institutions. In 1998, World Bank approved a Banking System Reform Project, which aims to strengthen banking sector regulation and supervision and develop a resolution framework for troubled banks. The release of the second tranche of this loan has been delayed due to the lack of agreement between the Government and the major shareholders on the pricing of government shares in Philippines National Bank (PNB). As a result, the Government has not been able to divest its PNB shares, which is a second tranche loan condition. Furthermore, a proposed loan for $100 million to support public sector reforms was abandoned in 2000.

Public Sector Reform Loan (2001–; $100–300 million)
In May 2001, the Government announced its intention to negotiate for a Public Sector Reform Loan to replace the Banking Sector Reform Loan (which lapsed due to the Government’s inability to comply with loan conditionalities).

Local Government Finance and Development Project (1999–2006; $100 million)
The Local Government Finance and Development Project for the Philippines is assisting participating LGUs to expand and upgrade their basic infrastructure, services, and facilities and to strengthen their capacities in municipal governance, investment planning, revenue generation, and project development and implementation. It is also enhancing capabilities at the national level to provide technical support and long-term financing to local governments through the Municipal Development Fund (MDF). The project has four components. The LGU subprojects component expands, repairs, and improves basic infrastructure, social and environmental services and facilities. The second component provides LGU training and capacity building for (i) subproject development and implementation; (ii) municipal planning, finances, and management; (iii) improved training modules and delivery mechanisms; and (iv) piloting of new programs including distance learning; LGU twinning; and

collaboration with local governments, nongovernment organizations, and the private sector. The third component supports LGU resource mobilization and monitoring the real property tax administration program; new initiatives to improve creditworthiness and revenue generation; and developing and implementing systems to improve monitoring of fiscal performance and local financial reporting and disclosure. The final component supports the MDF’s reorganization and strengthening.

**Banking System Reform Loan Project (1998–2001; $300 million)**

The Banking System Reform Project sought to support the strengthening of the banking system and enable it to better withstand current difficulties and future shocks. The focus of this program was to (i) improve on an ongoing basis the incentives for supervisors, bank owners, and the market to strengthen the framework for prudent banking; (ii) enhance the framework and the authorities’ preparedness for early intervention and resolution of troubled banks; (iii) strengthen Philippine National Bank towards the standards maintained by the top tier banks in the country; and (iv) reduce the incentives for regulatory and tax arbitrage across financial institutions, and between the peso and foreign currencies.

However, the second and third loan tranches were never released and the loan lapsed in June 2001. This was due to the Government’s inability to meet conditionalities, including (i) the full privatization and rehabilitation of the Philippine National Bank; and (ii) legislating an anti-money laundering bill.

**5. United Nations Development Programme (UNDP)**

The UNDP is supporting the following relevant projects:

**Pipeline Project: Building the Capacity of the Department of Budget and Management to Oversee Public Sector Reform**

The intention of this proposed project is to strengthen the role of the Department of Budget and Management (DBM) in the public reform process. Technical assistance shall be provided during the preparatory stage for a comprehensive needs assessment study.

**Enhancing the Public Accountability Program of the Commission on Audit (2000–2002; $950,000)**

The Australian Agency for International Development (AusAID) is providing the majority of financing for this project, which aims to strengthen the COA. Three reports, which describe government
accounting and auditing, have been prepared under the project. These form the principal information source for Chapter VI – Government Budgeting and Accounting.

6. **Canada (CIDA)**
The Canadian International Development Agency (CIDA) is supporting two directly relevant projects:

*Policy, Training and Technical Assistance Facility (PTTAF) Phase II (1999–2004)*
CIDA is providing technical assistance and training to assist government departments and agencies to further develop their internal mechanisms and structure for increased efficiency in policy formulation, planning, implementation, monitoring and evaluation. These agencies include Philippine Deposit Insurance Corporation (PDIC), Bureau of the Treasury (BTr), BSP, SEC, Department of Health (DOH), Department of Education, Culture and Sports (DECS), Technical Education and Skills Development Authority (TESDA), DBM, and COA.

This project aims to enhance the structures and mechanisms of local governments to increase their policy making and administrative capabilities in support of decentralization. It involves the provision of technical assistance, training and advisory services to LGUs.

7. **Japan**
Japan is the largest donor to the Philippines. It provides official development loans and untied loans through JBIC, and grants and technical assistance through the Japan International Cooperation Agency (JICA). Japan’s country strategy for official development assistance emphasizes:
(i) strengthening economic infrastructure, especially in power, transport and industry; (ii) poverty reduction and regional development through promoting rural development and improving basic social services; (iii) environmental conservation and disaster management; and (iv) human resource development. While Japan does not directly support financial management and governance activities, it provides indirect support through Japan-based education and training on financial management and public management.
8. **United Kingdom (British Council)**
While the British Council has not provided support for financial management and governance activities in the past, a forum on public accountability is planned for 2001.

9. **United States (USAID)**
The United States Agency for International Development (USAID) is implementing a large TA project\(^\text{206}\) to (i) develop the self-regulating organization (SRO) capacity of the PSE, (ii) assist in drafting rules for implementing the newly-enacted *Securities Regulation Code 2000*, (iii) review the corporate code, and (iv) facilitate company registration procedures within the SEC. Specific activities include, or have included, the following:

**Securities and Exchange Commission (SEC) and Philippine Financial Markets (Ongoing $750,000)**
Assistance is being provided to the SEC to strengthen its regulatory framework and oversight of securities exchange in order to improve investor confidence, create a more transparent and stable market regulation, and increase domestic sources of investment financing. This activity also supports a series of advocacy activities aimed at supporting the successful passage of financial and banking policy reforms that will deepen and better regulate the financial markets.

**Bangko Sentral ng Pilipinas (Ongoing $879,000)**
Assistance is being provided to BSP to strengthen its ability to effectively supervise and regulate banks (Part of AGILE).

**Philippine Stock Exchange (Ongoing $400,000)**
Assistance is being provided to the Philippine Stock Exchange and its related institutions to strengthen governance and improve the image of the stock market as serving the interest of the investors (Part of AGILE).

**Improving the Government Procurement System (Ongoing $500,000)**
This activity supports a government-wide effort to comprehensively reform the rules and procedures governing public procurement. The overall objective is to improve the efficiency, speed and transparency of the

\(^{206}\) Using a broad-based approach, the USAID project: *Accelerating Growth, Investment, and Liberalization with Equity* (AGILE) is providing approximately $14 million in a comprehensive, multi-sector assistance package.
process, as well as to harmonize it with the procurement procedures of major sources of funds.

**Strengthening Local Government Finance (Ongoing $488,000)**

Assistance is being provided to the Congressional Committee on Local Government and the DOF Undersecretary responsible for local government affairs in strengthening the financial structure of local government units and in legally enabling appropriate amendments to the Local Government Code (Part of AGILE).

**Institutionalizing the Budget Dialogue Group (Ongoing $312,600)**

This activity supports the DBM in its efforts to increase the participatory nature of the national budgeting process (Part of AGILE).

**Piloting a Budget Management Information System (Completed $312,600)**

The DBM is being assisted to develop a new budgeting management information system that will respond to the need for transparency and participation in the overall budgeting process (Part of AGILE).

**Environmental Accounting Project**

This project was funded by USAID through the United States–Asia Environmental Partnership Program. It focused on developing an environmental accounting course for accountants, engineers and managers from large, medium and small companies across the country. The courses included an introduction to the concepts of pollution prevention, clean technologies and environmental accounting, particularly the Total Cost Assessment approach of profitability analysis. It included a set of case studies based on Philippine industry experience. The courses were conducted in September 1999 after which a train-the-trainer course followed to ensure continued dissemination by PICPA. The Environmental Accounting project was implemented countrywide in 2000.

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VIII. Issues and Recommendations

This chapter presents the issues and recommendations that are associated with gaps or weaknesses in accounting and auditing arrangements. These issues and associated recommendations are consistent with those identified by the subsequent World Bank review of Philippine Corporate Sector Accounting and Auditing Practices, which is not surprising as the World Bank consultants were provided with the final draft of the Philippines DSAA report, before commencing their work.

The Philippines was less affected by the Asian financial crisis than some other countries in the region, largely due to better financial management arrangements. Moreover, accountancy is an elite and respected profession. However, the study revealed a range of issues that need attention if accountancy is to maintain its high status and if the Philippines is to successfully attract investment.

- In the case of accounting and auditing standards and practices, the study identifies deficiencies in the standards and in standard-setting arrangements. Several recommendations are made to enhance these arrangements so that the Philippines can have world-class accounting and auditing standards.

- The quality of financial reporting is undermined by a lack of compliance monitoring. To this end, the study recommends that financial disclosure monitoring be strengthened.

- Regarding professional arrangements the study identifies significant weaknesses in CPA licensure standards and quality assurance arrangements. The Philippines accountancy profession was once among the region’s strongest. However, in the meantime, international standards and practices were continuously enhanced and neighboring countries developed their professions accordingly. The recommendations are intended to support the return of the Philippines accountancy profession to its former status.

- Standards of accountancy education and training might also be raised. To this end, recommendations are made to improve course quality and ensure that accountancy teachers keep up-to-date with international developments.

Some constraints can be addressed with minimal resources and effort. For instance, strengthening the profession by making PICPA membership compulsory for all CPAs. Others are more complex and will take
time, such as enhancing CPA licensure standards (examination, practical experience and continuing professional education).

The Philippines DSAA was undertaken before the other country studies in the 2001–02 DSAA series. The study recommendations were first discussed and debated with representatives from government, the private sector and international organizations at a workshop held at ADB’s Manila Headquarters on 12–13 March 2001.

Some of the recommendations were the subject of intense debate. For instance, Philippine accountants could be licensed as CPAs—and could conduct audits—without ever having worked in accountancy. Some study participants disputed the need for a practical experience component in the CPA qualification. They contended that this requirement would be unworkable in the Philippine environment.

Moreover, some study participants disagreed with the study’s general conclusion that Philippine financial disclosure and auditing practices were not consistent with international best practice:

“There have been instances of fraudulent reporting and audit failures in the US, United Kingdom, Singapore, Hong Kong and other supposedly best practice countries mentioned in the report. On the average, the Philippine accounting and auditing profession, at least those in the top tier, are comparable, if not better, than some of these countries.”\(^{208}\)

Although these countries have had financial reporting and auditing failures—like those in the Philippines—there is a stark contrast in reactions. For instance, in response to recent US financial reporting scandals, stricter controls have been introduced; civil actions have been filed against the offending companies, their officers and their auditors; criminal charges have been laid against involved parties; and there has been intense scrutiny through the media and by the US Congress.

In contrast, following the Philippine scandals involving Engineering Equipment Incorporated (EEI) and Victorias Milling Company (Vicmico), neither PRC nor BOA investigated the auditors, the auditors were reportedly fined minimal amounts and these penalties were never reported in the media.

Whatever the case, the Philippines DSAA provided input into the development of the ADB-supported nonbank financial governance program.\(^{209}\) Some of the government-agreed policy conditions of that

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\(^{209}\) ADB Loan 1858-PHI: Nonbank Financial Governance Program, for $75 million, approved on 15 November 2001.
program reflect the study recommendations. Furthermore, ADB is providing technical assistance to strengthen the SEC’s monitoring capacity in line with the study recommendations.

Significant efforts have already been made to implement the study recommendations. Each study recommendation—and the issues that it is intended to address—is set out below. The issues and recommendations are divided into two parts as follows.

• Part One: Where the matter referred to may be considered and, if any action is to be taken, this would be better achieved with external assistance.

• Part Two: Where the matter referred to may be considered and, if any action is to be taken, this may be achieved without the need for external assistance.

**Part One. Where Donor Assistance Might be Appropriate**

1. **Advocate Changes to IASB Copyright and Pricing Policies**

   IASB promulgates IAS and associated guidance materials. The IASC holds the copyright to these materials. Many developing countries, including the Philippines, are moving towards IAS. Investors, lenders, academics, practitioners and regulators should have access to the IAS and associated materials. However, IASC’s copyrighting and pricing policies effectively limit this access. In doing so, they appear to conflict with the IASB’s constitutional objectives. It is recommended that ADB raise this issue with other multilateral and bilateral donor organizations, so that a joint approach may be made to the IASB and the international accountancy profession.

2. **Directly Adopt International Accounting Standards**

   The ASC has recently begun basing IAS-based SFAs. However, (i) SFAs are not being issued as quickly as IASs, (ii) old SFAs are not always modified to reflect the impacts of new SFAs, (iii) IASs are not necessarily fully adopted as a whole, and (iv) a range of accounting policy choices continues to be available to financial statement preparers.

   The direct adoption of IASs offers benefits through (i) reducing the costs and efforts associated with standard setting; (ii) improving the credibility of Philippine financial reporting; (iii) providing access to a greater range of training materials; (iv) making Philippine CPA skills more transferable on the international market; and (v) enabling
Philippine financial reporting standards to be current with international pronouncements and practices. Where an IAS does not address a certain country-specific arrangement, there is a case for promulgating a national accounting standard. For instance, Papua New Guinea uses IASs directly but has released a national accounting standard on Plantation accounting.\textsuperscript{210} A Philippine case might possibly be argued for Dacion en Pago arrangements.\textsuperscript{211}

To accommodate diverse international views, IASs offer a range of accounting policy choices. While the available choices have been significantly reduced since 1996, IASs are still criticized for being too flexible. For instance, IAS 2 \textit{Inventories} allows for several valuation methods. Many countries who have adopted, or who are adopting, IASs limit the available choices to improve the consistency and comparability of financial reporting in their country. In many cases, accounting choices are limited to those allowed for taxation purposes.

It is recommended that (i) the Philippines adopt IASs directly and completely on 1 January 2004, and that existing SFASs be invalidated at that date; (ii) assistance be provided to prepare training and guidance materials on the differences between IAS and existing Philippines GAAP; and (iii) training programs for practitioners, academics, and regulators in this respect be supported. It is further recommended that amendments to IAS be (i) allowed only to remove multiple accounting policy choices, and (ii) effected through overlay regulations rather than a direct amendment to an IAS.

3. Alter Accounting Standard Setting Arrangements
The ASC’s accounting standard-setting processes align with international practice, but its structure is heavily weighted in favor of financial statement preparers and auditors. This imbalance is arguably reflected in the wide range of accounting policy choices that SFASs allow. In comparison, the US FASB and IASB reflect users’ interests alongside those of preparers. Furthermore, the imprimatur of the PRC, through BOA, is required before accounting standards have legal authority. The BOA, like the ASC, is balanced strongly in favor of the accountancy profession.


The FASB and the IASB are, like the ASC, private sector organizations. The issue of whether accounting standard setting should be a government or private-sector function is a common one faced by many countries—it is influenced by a range of factors. Assigning this role to a government agency can be counterproductive. Research has found that government regulation stifles the profession and that accounting standard setting can become a taxation policy instrument, thereby significantly reducing the value of financial statements to other users. In the Philippines, the members of the ASC, and in particular the Chair, have devoted enormous amounts of voluntary time over the past 18 years to develop accounting standards. If the preceding recommendation on direct acceptance of IASs is implemented, the balance of the Council’s membership re-weighted, and approval responsibility assigned away from the BOA, there seems no reason why the accounting standard setting process should not continue to remain in the private sector.

It is recommended that the Revised Accountancy Law 1975 be amended to reflect the following improvements to accounting standard setting arrangements: (i) accord legal status to the ASC; (ii) prescribe the Council’s composition and appointment processes—the composition should reflect a balance of constituency views; and (iii) define the ASC’s role as being limited to reviewing IASs and identifying policy choice exclusions in IASs.

4. Strengthen Financial Disclosure Monitoring

There is evidence that financial statements do not comply with financial disclosure requirements. It is recommended that assistance be provided to the Office of the General Accountant (OGA) of the SEC to develop and implement (i) a strict monitoring regime over financial disclosures; and (ii) an automatic system of penalties for corporations who breach financial disclosure requirements and for auditing firms that do not qualify audit opinions where financial disclosure requirements are sub-standard.

5. Directly Adopt IAASB Auditing Pronouncements

The ASPC promulgates SASPs, but is inactive. Consequently, SASPs have a narrow coverage and are behind IAASB pronouncements.

It is recommended that (i) the Philippines adopt ISAs, IAPSs and all other IAASB pronouncements directly on 1 January 2004, and that existing SASPs be invalidated at that date; (ii) assistance be provided to prepare training and guidance materials on the differences between these pronouncements and SASPs; and (iii) training programs for practitioners, academics, and regulators in this respect be supported. It is further recommended that the Revised Accountancy Law 1975 be amended to require that audits be conducted in accordance with the pronouncements of the IAASB.

6. Strengthen Compliance with Auditing Practices

It appears that Philippine auditing practices differ substantially from international and regional guidelines and norms in four areas: (i) auditor appointment and dismissal; (ii) auditor independence; (iii) audit reporting procedures; and (iv) exposure of auditors to liability. It is recommended that assistance be provided to develop and implement regulations covering the following areas: (i) auditor appointment and dismissal (e.g., appointments made by shareholders, automatic resignation at annual general meetings (AGM), and mandatory requirement for communications between incoming and outgoing auditors); (ii) auditor independence (e.g., restrictions on interests, restrictions on services, antilow-ballng rules, mandatory rotation of audit firms or audit partners, mandatory disclosures of challenges to objectivity); (iii) audit reporting procedures (e.g., mandatory disclosure of fraud, illegal acts and internal control weaknesses in audit reports); and (iv) exposure of auditors to liability (e.g., remove legal liability caps). It is further recommended that assistance be provided to the Office of the General Auditor (OGA) of the SEC so that it can develop the capacity and procedures to ensure compliance with these requirements.

7. Amend the Accountancy Law so that Licensure Standards can be Raised

Qualifying as a CPA has four stages: academic, experience, examination and CPE. The Philippine CPA title meets international standards and regional norms on the first stage. It falls short on the others. There are three possible implications. First, the recently established IFAC Compliance Committee will be reviewing member body compliance with
IFAC guidelines and standards in the next few years. PICPA will have to explain deviations. The IFAC Compliance Committee is responsible for recommending actions to IFAC’s Board and Council when member bodies fail to comply with guidelines and standards. Second, ISAR is embarking on a project to benchmark CPA qualifications from around the world. The “grade” given to a country CPA qualification will be based on compliance with international guidelines and practices. This grade will directly affect the international standing and transferability of CPA titles. Third, as a condition of membership, IFAC member bodies are required to comply with guidelines and standards. In this respect, IFAC has issued guidance on the procedures to be followed when agreeing on mutual recognition of qualifications. It appears that the Philippine WTO-GATS and Asia Pacific Economic Cooperation (APEC) negotiation strategy, in relation to accountancy services, is to conclude Mutual Recognition Agreements (MRAs). Under IFAC guidelines, member bodies must take education, examination and experience requirements into account when negotiating MRAs. As a significant exporter of accountancy services, the Philippines appears to be at a negotiating advantage. The legality of any MRAs that the Philippines concludes with other ASEAN countries might be open to challenge, from other APEC and WTO members, based on the quality of CPA licensure procedures.

The accountancy profession is attempting to raise standards—for instance, requiring mandatory CPE—but is hamstrung by the regulatory environment. A particular impediment is the uniform regulation approach applied through the PRC—which oversees 43 diverse professions. The story of CPE over the past decade has been one of endless legal proposals, reversals and court challenges. It is difficult to see how CPA licensure standards can be raised in the existing environment, without enabling legislative changes.

In order to create an environment that will enable CPA licensure standards to be raised, it is recommended that the Revised Accountancy Law 1975 and other laws and regulations be amended to enable the introduction of (i) practical experience requirements for CPA licensure, (ii) a written component to the CPA licensure examination, and (iii) mandatory CPE as a condition of license renewal.

8. **Address CPA Licensure Examination Issues**

International guidelines recommend that a significant component of a CPA exam should be written, but the Philippine CPA licensure exami-
nation is entirely multiple choice. This approach was taken deliberately to minimize serious “leakage” problems in the examination process—it has been extremely effective in this sense. The tension between minimizing leakage and preparing high quality examinations is also reflected in the quality of examination questions. Examiners individually prepare one section each, but the other examiners do not review their efforts. The Microsoft certification approach provides a successful example of how technology can be employed to ensure that integrity is maintained while examinees are practically tested. This represents an updated approach to that used for the computerized CPA licensure examination. It is recommended that options for restructuring the CPA licensure examination be investigated with the objective of (i) introducing a written component into the examination; and (ii) implementing quality reviews over examination question setting.

9. **Introduce an Experience Prerequisite for the CPA Title**

The absence of a practical-experience prerequisite for CPA licensure does not accord with international standards or regional norms. Philippine accountants can be licensed as CPAs without ever having worked in accountancy. IFAC has published two documents to guide member bodies on how to meet the requirements of IEG 9. The effective and fair implementation of these requirements in the Philippine environment poses some clear challenges; implementation and monitoring arrangements will need to be very carefully designed. It is recommended that specified practical experience be introduced as a prerequisite requirement for the CPA title.

10. **Introduce Mandatory Continuing Professional Education**

PICPA supports the introduction of mandatory CPE requirements—which international guidelines require. It is recommended that (i) mandatory CPE requirements be introduced through enabling legislative changes; and (ii) assistance be provided to design and implement appropriate procedures for monitoring CPE compliance.

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215 IFAC. Study I: An Advisory on Examination Administration Based on the Practices of Selected IFAC Member Bodies. New York: IFAC.

11. **Reassign Responsibilities for Monitoring and Investigating Certain Ethical Matters**

BOA and PICPA are unwilling to investigate cases involving (i) gross negligence or incompetence, (ii) issuance of an accountant’s certificate covering the examination of the client’s accounts without observing the necessary auditing standards; or (iii) conduct discreditable to the accounting profession. This is perhaps because accounting firms have a strong representation in these bodies. In contrast, the SEC has shown willingness to investigate these types of ethical matters. Furthermore, the SEC is being restructured so that it can meet its responsibilities under the *Revised Securities Code 2000*. The restructure involves the creation of the OGA. This position was unfilled at February 2001.

It is **recommended** that responsibility for investigating cases involving; (i) gross negligence or incompetence, (ii) issuance of an accountant’s certificate covering the examination of the client’s accounts without observing the necessary auditing standards, or (iii) conduct discreditable to the accounting profession; be assigned to the Office of the General Accountant of the SEC. It is further **recommended** that assistance be provided to; (i) identify and draft the necessary legislative amendments to effect this reassignment; (ii) identify OGA requirements for implementing these responsibilities; and (iii) support the development of OGA capacity to meet these responsibilities.

12. **Implement Quality Control and Assurance Arrangements**

The accountancy profession places minimal emphasis on quality control assurance over professional practices—a recent limited initiative has been for the BOA to recognize accounting firms, based on their internal review processes. In contrast, IFAC recommends that member bodies, including PICPA, (i) adopt quality control standards and require individual accounting firms to implement these; (ii) develop and implement programs to review compliance with these standards; (iii) establish programs to review compliance with relevant professional standards for assurance engagements; and (iv) require accounting firms to make appropriate improvements in quality arrangements and procedures when these fail to meet standards. Neighboring countries have adopted robust programs of this nature.

It is **recommended** that assistance be provided for a project to improve professional supervision. The project would involve (i) studying the existing structures and processes of CPA firms; (ii) examining, and drawing useful lessons from international experience with regards to
supervisory regimes (including peer review regimes); (iii) designing a supervisory system for the Philippines that reflects local conditions and provides sufficient flexibility to deal with environmental changes; (iv) implementing the supervisory system and associated reporting systems; (v) reviewing and, where necessary, revising CPA legal responsibilities and associated disciplinary regulations; and (vi) improving the capacity of managers with supervisory responsibilities through training.

13. Introduce Provisional CPA Title
International practice is for CPA titles to be issued only after candidates have completely met academic, practical experience, and licensure examination requirements. In the period between meeting the academic requirements and receiving the full CPA license, accountants are accorded provisional status. They are not, however, allowed to sign audit reports or undertake certain other activities. It is recommended that PICPA and BOA establish a provisional CPA title for those who met academic requirements and are gaining prescribed practical experience.

14. Introduce Accounting Technician Membership Category
PICPA essentially has one individual membership category—that of the CPA. It has been estimated that the Philippines has a further 400,000 accountants. It is common international practice for professional bodies to have a range of membership categories with differing qualification criteria—particularly that of Accounting Technician. The establishment of at least one subsidiary membership category within PICPA would provide a transitional route for aspiring CPAs and professional representation for non-CPAs. It would also improve their societal status, and improve their knowledge and competence. Furthermore, this initiative would strengthen PICPA’s membership and revenue base. It is recommended that PICPA and BOA consider establishing a professional membership category for accounting technicians.

15. Develop Annual Financial Management Scorecard
The establishment and systematic monitoring of financial management indicators would provide an impetus for raising standards. The BOA’s initiative, of preparing examination result analyses and distributing these to under-performing academies, is an excellent example. It is recommended that assistance be provided to the OGA to (i) design a financial management scorecard; (ii) design and develop data-collection
methods to support the annual preparation of the scorecard; and (iii) prepare a scorecard for the 2001 calendar year.

16. Improve Monitoring of Accountancy Courses
There is a wide disparity in the quality of accountancy courses. Students from poorer families attend institutions with poor educational records in the hope that they will pass the CPA board examination. The BOA has initiated an excellent program to provide feedback to educational institutions on the quality of their courses. It is recommended that assistance be provided to the BOA to broaden its educational monitoring initiative.

17. Provide Continuing Training to Professors and Lecturers
There is a wide disparity in the quality of professors and lecturers. Anecdotal evidence contends that professors and lecturers, who teach accountancy courses to less-wealthy students, are not conversant with modern accounting and auditing practices. It is recommended that assistance be provided to design and implement a continuing education program for accounting lecturers and professors.

18. Define Accounting Information System Requirements
COA aims to increase the computerization of government accounting and auditing. Before further progress can be made, several policy issues must first be examined and a position agreed. Among others, these include (i) the accounting policy basis, (ii) consolidation policies and methodologies, (iii) the respective emphasis on financial and management accounting, (iv) the desirability of the Canadian practice of modified accrual accounting, and (v) the future of obligation and fund accounting. It is recommended that assistance be provided to COA to analyze these issues and develop agreed policies and plans to implement these policies.

Part Two. Where External Assistance is Not Required

19. Directly Adopt IFAC Pronouncements on Ethics
The BOA and PICPA Code of Professional Ethics, and procedures for dealing with potential ethical breaches, do not accord with international guidelines. Two examples follow. First, the Board and the Institute should have the authority to investigate potential ethical breaches, even when no complaint has been made. Second, the Board and the Institute should
publicize potential breaches and investigative actions as a matter of course, rather than as a matter of exception. It is recommended that the Revised Accountancy Law 1975 be amended so that (i) the IFAC Code of Professional Ethics and other IFAC promulgations on ethical matters be accorded legal status; (ii) existing pronouncements and procedures on ethics be revoked; and (iii) the procedures of BOA and PICPA be amended to accord with IFAC promulgations.

20. Make PICPA Membership Compulsory for CPAs

Despite efforts to make it so, membership of the Accredited Professional Body—PICPA—is not compulsory—only about 20% of CPAs are members. This limits quality control and educational efforts. It also undermines the financial position of the professional accountancy bodies. It is recommended that the Accountancy Law be amended to require membership of PICPA, a requirement for retaining the CPA title.

21. Minimize Compliance (Transaction) and VFM Auditing

Auditors spend the majority of their time on compliance auditing (checking transactions). Minimal time is spent on financial attest auditing as more effort is applied to value-for-money (VFM) audits. A proposed ADB TA will focus on strengthening financial attest auditing and VFM capacities. While this study strongly supports resources being redirected from compliance auditing to financial attest auditing, it cautions against similar redirection to VFM auditing, for three reasons. First, VFM audits are essentially policy evaluations but generally take place long after policies have been implemented. Strengthening the policy-making function, through policy evaluations, is more effective in this sense. Second, in contrast to a well-designed policy evaluation function, VFM audits are generally targeted on the basis of questionable criteria. A review of VFM reports from Supreme Audit Institutions (SAIs) around the world would reveal, in keeping with public choice theory, that issues are targeted for their media worthiness—not necessarily for their impact on significant public policy outcomes. Third, the skills required to conduct a policy evaluation or a VFM audit are generally not those of a CPA. This requires that organization capacity be established. Fourth, even if VFM audits do represent value for money, they inevitably divert resources away from financial attest auditing—a key tool in reducing graft and corruption. For instance, COA already devotes more resources to VFM auditing than it does to financial attest auditing. The SAIs of developed countries, which have a strong financial attest
ISSUES AND RECOMMENDATIONS

auditing capacity, can afford to divert resources to VFM auditing. It is questionable whether the same is true of developing countries.

It is recommended that COA (i) continue to reduce the resources that are directed towards compliance (transaction) audits; (ii) continue to strengthen financial attest auditing capacity; and (iii) consider the appropriateness of directing scarce resources towards VFM auditing in the absence of a strong financial attest auditing capability.

22. Limit Proxy Voting in PICPA Meetings and Elections
Proxy voting is employed in PICPA elections. It has been contended that large accounting firms collect proxies and cast block votes. It is recommended that PICPA's Bylaws be amended to limit the number of proxy votes that individual members can exercise at meetings or during elections.

23. Exempt CPAs from Tax Agent Accreditation
In 1999, under the National Internal Revenue Code, the BIR required that tax agents be accredited. This requirement took legal effect from 1 January 2001, but has yet to be implemented in practice. It has been suggested that accreditation will encourage rent-seeking behavior. Moreover, as attorneys are exempt from accreditation, it has also been contended that this exemption should also apply to CPAs. It is recommended that the BIR treat CPAs in the same manner as attorneys for the purpose of tax agent accreditation.

24. Limit Accountancy Degree Courses to 4 Years
PICPA proposes that a 5-year accountancy curriculum be introduced. In contrast, the BOA recommends that a 4-year curriculum be continued and that focus be directed towards improving curriculum quality and teaching quality. This study supports the BOA's stand for two reasons. First, IFAC recommends a minimum 3-year curriculum—a longer education program will not necessarily address quality issues. Second, a 5-year curriculum will limit opportunities for less wealthy students. It is recommended that a 4-year course limit be placed upon accountancy degree courses.

25. Separate Accounting and Auditing Responsibilities
The Commission on Audit is exclusively responsible for promulgating accounting and auditing rules—per Article IX of the Constitution 1987. Their coexistence is inconsistent with the concept of auditor objectivity
and independence. Moves are already underway to address this issue—for instance, Senate Bill No 439 (2000) seeks to create a government accounting office under the DBM—this could be constitutionally troublesome unless carefully designed. However, a proposed ADB TA will examine COA’s structure and responsibilities with the intention of recommending a solution that is in keeping with the Constitution. This study supports efforts to separate government accounting and auditing responsibilities. But, it is **recommended** that initiatives to separate government accounting and auditing functions, be planned in full acknowledgment of Constitutional requirements.

### 26. Adopt International Public Sector Accounting Standards

There is no consistent set of accounting standards for budgeting and reporting. Major reporting differences result. COA is considering what accounting standards might be appropriate as it prepares for the introduction of accrual accounting. There are three sets of international standards available: (i) IMF Government Financial Statistics (GFS); (ii) UN System of National Accounts (SNA); and (iii) IPSAS. ADB, World Bank, IMF and UNDP have funded the development of IPSASs and are represented on the PSC. The International Organization of Supreme Audit Institutions (INTOSAI) is also represented on the PSC.

Most countries use the cash-based GFS and SNA standards. Furthermore—given that IPSASs are entirely grounded in IASs—a number of governments indirectly use them for preparing financial statements on the accrual accounting basis. While differences remain between GFS, SNA and IPSASs, significant progress has been made towards harmonization. As demonstrated by several governments, the IPSAS basis provides the necessary information to prepare GFS and SNA financial statements. Three advantages would accrue through the adoption of the IPSASs. First, government and private sector accounting practices would be the same. This would enable direct transferability of accounting skills between the two sectors. Second, training and guidance materials are available from governments that have already moved to an IPSAS-compatible accrual basis (e.g., Australia and New Zealand, among others). Third, as IPSASs are essentially IASs under another name, choices in computerized accounting systems are not limited to those with special functionality.

It is **recommended** that IPSASs be adopted if the Government moves to full accrual accounting.
IX. Country Action Plan

The Philippines was less affected by the Asian financial crisis than some other countries in the region, largely due to better financial management arrangements. Moreover, accountancy is an elite and respected profession. However, the study revealed a range of issues that need attention if accountancy is to maintain its high status and if the Philippines is to attract investment.

In contrast to the other country actions presented in this chapter, explanatory comments are included in the Philippine country action plan for two reasons. First, the study recommendations were initially discussed at the March 2001 Manila workshop. In the intervening period, efforts have already been made to implement the recommendations—the action plan describes these efforts. Second, Philippine study participants were less unified—when compared to other country participants—in agreeing on study issues and recommendations. Accordingly, the action plan describes discordant views.

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<tr>
<td>Directly adopt IAS in 2004</td>
<td>High</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>• The Philippines will complete direct IAS adoption by 2005.</td>
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<tr>
<td>Strengthen financial disclosure monitoring and impose strict penalties onerring corporations and auditors</td>
<td>High</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>• ADB is providing TA to implement this recommendation.</td>
<td></td>
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<td></td>
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<tr>
<td>Directly adopt IAASB pronouncements (International Standards on Auditing) in 2004</td>
<td>High</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>• The Philippines will complete direct adoption of IAASB pronouncements by 2005</td>
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<tr>
<td>Strengthen auditing practices and monitor compliance with auditing requirements</td>
<td>High</td>
<td>✓</td>
<td>✓</td>
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### Action

- **Amend the Accountancy Law so that licensure standards can be raised**
  - Although one auditing firm strongly disagreed with this recommendation, other study participants were supportive. Moreover, Bangko Sentral ng Pilipinas has recently introduced 5-yearly mandatory rotation of bank auditors.

  **Priority:** High
  **Donor Assistance:** ✔️
  **Country Support:** ✔️

  **2002–2006**

- **Introduce practical experience prerequisite for the CPA title**
  - In keeping with the recommendation, the accountancy profession is preparing amendments to the Accountancy Law to support, among other things: (i) mandatory CPE; (ii) quality assurance improvements; and (iii) the introduction of practical experience requirements for auditors.

  **Priority:** High
  **Donor Assistance:** ✔️
  **Country Support:** ✔️

  **2002–2006**

- **Introduce mandatory CPE**
  - The Philippines will introduce this international requirement through an amendment to the Accountancy Law.

  **Priority:** High
  **Donor Assistance:** ✔️
  **Country Support:** ✔️

  **2002–2006**

- **Reassign responsibility for investigating certain ethical matters from BOA and PICPA to the SEC**
  - Although there was general agreement that BOA and PICPA had not effectively discharged their responsibilities in this area, there was no clear support for the recommendation on the basis that the SEC would also be ineffective. ADB is providing TA to SEC to strengthen its capacity in this area.

  **Priority:** High
  **Donor Assistance:** ✔️
  **Country Support:** Mixed

  **2002–2006**

- **Design and implement quality control and quality assurance arrangements over the profession**
  - In keeping with the recommendation, amendments are being prepared to the Accountancy Law to strengthen quality assurance arrangements.

  **Priority:** High
  **Donor Assistance:** ✔️
  **Country Support:** ✔️

  **2002–2006**
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<tr>
<td><strong>Introduce provisional CPA title</strong>&lt;br&gt;• Participants in the March 2001 Manila workshop supported this recommendation, as did all associated written comments. However, the PRC subsequently disagreed with the recommendation (March 2002).</td>
<td>High</td>
<td>✓</td>
<td>✓</td>
<td>[ ]</td>
</tr>
<tr>
<td><strong>Improve monitoring of accountancy courses</strong>&lt;br&gt;• In August 2001, the Commission on Higher Education approved a new accountancy curriculum. BOA would appreciate support to implement the new curriculum and associated monitoring arrangements.</td>
<td>High</td>
<td>✓</td>
<td>✓</td>
<td>[ ]</td>
</tr>
<tr>
<td><strong>Provide continuing training to professors and lecturers</strong>&lt;br&gt;• ADB is supporting a regional response to this important issue.(^\text{217})</td>
<td>High</td>
<td>✓</td>
<td>✓</td>
<td>[ ]</td>
</tr>
<tr>
<td><strong>Define accounting information system requirements</strong>&lt;br&gt;• COA has acted to define requirements.</td>
<td>High</td>
<td>✓</td>
<td>✓</td>
<td>[ ]</td>
</tr>
<tr>
<td><strong>Directly adopt IFAC pronouncements on professional ethics</strong>&lt;br&gt;• BOA has prepared a revised code of ethics that is directly based on the IFAC code of ethics.</td>
<td>High</td>
<td>×</td>
<td>✓</td>
<td>[ ]</td>
</tr>
<tr>
<td><strong>Make PICPA membership compulsory for CPAs</strong>&lt;br&gt;• On the basis that this would probably delay congressional approval of the Accountancy Law amendments, PRC has not included this requirement in proposed Accountancy Law amendments, but intends to pursue this as a longer term objective.</td>
<td>High</td>
<td>×</td>
<td>✓</td>
<td>[ ]</td>
</tr>
<tr>
<td><strong>Minimize compliance (transaction) and value-for-money (VFM) audits</strong></td>
<td>High</td>
<td>×</td>
<td>Mixed</td>
<td>[ ]</td>
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\(^\text{217}\) ADB TA No. 6028–REG: Small Scale Technical Assistance for Upgrading Accounting Education (Training the Trainers), for $100,000, approved on 11 April 2002.
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<tr>
<td>• With the important exception of COA, all participants agreed with this recommendation. COA intends to maintain its VFM auditing focus.</td>
<td>Medium</td>
<td>✔</td>
<td>Mixed</td>
<td>✔</td>
</tr>
<tr>
<td>Alter accounting standard setting arrangements by giving the ASC legal status, altering ASC representation, and tightly defining the ASC role</td>
<td>Medium</td>
<td>✔</td>
<td>Mixed</td>
<td>✔</td>
</tr>
<tr>
<td>• There was mixed support for this recommendation. In particular, the PRC intends to maintain ASC’s existing composition. However, this recommendation is now less important, given the decision to directly adopt IAS.</td>
<td>Medium</td>
<td>✔</td>
<td>Mixed</td>
<td>✔</td>
</tr>
<tr>
<td>Address CPA licensure examination issues</td>
<td>Medium</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>• The PRC has already addressed some of these issues, and intends to improve quality reviews of examination question setting. Regarding the introduction of a written examination component (in accordance with international standards), the PRC supports the introduction of this requirement before auditors may issue audit opinions.</td>
<td>Medium</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Introduce Accounting Technician membership category to PICPA</td>
<td>Medium</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>• Although all written comments received prior to the March 2001 Manila workshop supported this recommendation, one view was expressed in the workshop that the Accounting Technician designation is a very low level qualification intended for countries with poorly developed accountancy professions.</td>
<td>Medium</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Develop annual financial management scorecard for the private sector</td>
<td>Medium</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>• Although supported by study participants, this recommendation has yet to be implemented.</td>
<td>Medium</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Limit the use of proxy voting in PICPA meetings and elections</td>
<td>Medium</td>
<td>✗</td>
<td>✔</td>
<td>✔</td>
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### Country Action Plan

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<tr>
<td>With exception of current and former partners from a particular auditing firm, there was general agreement with this recommendation. However, as a nonstock corporation PICPA is required to allow proxy voting. Furthermore, it was suggested that the potential misuse of proxy votes could be addressed by limiting the number of proxies that can be assigned to an individual. For instance, the California Society of CPAs limits proxy assignments to 10.</td>
<td>Medium</td>
<td>✗</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Exempt CPAs from BIR tax agent accreditation requirement</td>
<td>Medium</td>
<td>✗</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>PRC/BOA subsequently met with the BIR Commissioner and officials to discuss this issue; a memorandum of agreement is being developed to give effect to this recommendation.</td>
<td>Medium</td>
<td>✗</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Limit accountancy degree courses to four years</td>
<td>Medium</td>
<td>✗</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>This issue has since been resolved. In August 2001, the Commission on Higher Education approved a new accountancy curriculum. It requires a minimum of 177 units, which can be completed within 4 years.</td>
<td>Medium</td>
<td>✗</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Carefully separate accounting and auditing responsibilities</td>
<td>Medium</td>
<td>✗</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Adopt International Public Sector Accounting Standards (IPSASs), if accrual accounting is implemented</td>
<td>Medium</td>
<td>✗</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Advocate changes to IASB copyright and pricing policies</td>
<td>Low</td>
<td>✓</td>
<td>✓</td>
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</tbody>
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145
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Appendixes

Appendix 1. Useful Internet Sites ............................................................... 158
1. Regulatory and Standard-Setting Bodies ..................... 158
2. Professional Bodies ............................................................... 158
3. International Organizations ............................................ 159
4. Government Organizations .......................................... 159
5. Accounting Firms ............................................................. 159
6. Financial Institutions ...................................................... 160
7. Donor Organizations ....................................................... 160

Appendix 2. Interviewees .............................................................................. 161

Appendix 3. Study Information ................................................................. 163
1. Study Phases ........................................................................ 163
2. Phase I: Case Study On Accounting and Auditing ........ 163
3. Phase II: Manila Workshop ........................................... 163
5. Consultation .................................................................. 164

Appendix 4. Comments on Draft Report .................................................. 165
Appendix 5. Workshop Attendees, March 2001 ......................... 166
Appendix 6. International Accounting Standards ....................... 168
Appendix 7. IASB Work Plan ............................................................... 169
Appendix 8. International Standards on Auditing ................. 171
Appendix 10. PICPA Committees ............................................................. 177
Appendix 11. Restrictiveness Indexes for Accountancy Services .... 179
Appendix 12. Extracts from PICPA’s Amended Bylaws ............... 181
Appendix 13. Extracts from the Securities Regulation Code .......... 186
Appendix 14. Illustrative Financial Management Scorecard ........... 192
Appendix 1. Useful Internet Sites

... – unable to find website at the time this report was finalized.

1. Regulatory and Standard-Setting Bodies

Accounting Standards Council (ASC) www.acpapp.com.ph/html/actstdp.htm
Auditing Standards and Practice Council (ASPC) www.fasb.org
Financial Accounting Standards Board (FASB – United States) www.fasb.org
International Accounting Standards Committee (IASC) www.iasc.org.uk
International Federation of Accountants (IFAC) www.ifac.org

2. Professional Bodies

ASEAN Federation of Accountants (AFA) www.macrod.com/acpaci/
Association of Certified Public Accountants in Commerce and Industry (ACPACI) www.macrod.com/acpaci/
Association of Certified Public Accountants in Education (ACPAE) www.acpapp.com.ph
Association of Certified Public Accountants in Public Practice (ACPAPP) www.acpapp.com.ph
Confederation of Asian and Pacific Accountants (CAPA) www.capa.com.my
Government Association of Certified Public Accountants (GACPA) www.ifac.org
International Federation of Accountants (IFAC) www.ifac.org
National Federation of Junior Philippine Institute of Accountants (NFJPIA) www.jpia6.tripod.com/national
Philippine Institute of Certified Public Accountants (PICPA) www.picpa.com.ph
3. **International Organizations**

Asia Pacific Economic Council (APEC)  
www.apecsec.org.sg

Association of Southeast Asian Nations (ASEAN)  
www.asean.or.id

International Federation of Accountants (IFAC)  
www.ifac.org

International Organization of Securities Commissions (IOSCO)  
www.iosco.org

World Trade Organization (WTO)  
www.wto.org

4. **Government Organizations**

Bangko Sentral ng Pilipinas (BSP or Central Bank)  
www.bsp.gov.ph

Board of Accountancy (BOA)  
...

Bureau of the Treasury  
www.treasury.gov.ph

Bureau of Internal Revenue (BIR)  
www.bir.gov.ph

Civil Service Commission (CSC)  
www.csc.gov.ph

Commission on Audit (COA)  
www.coa.gov.ph

Commission on Higher Education (CHED)  
www.info.com.ph/chedco/

Department of Budget and Management (DBM)  
www.dbm.gov.ph

Department of Finance (DOF)  
www.dof.gov.ph

National Economic and Development Authority (NEDA)  
www.neda.gov.ph

Professional Regulatory Commission (PRC)  
www.cnms.net/prc/

Securities and Exchange Commission (SEC)  
www.sec.gov.ph

5. **Accounting Firms**

Sycip, Gorres and Velayo Audit Firm (SGV)  
www.sgv.com.ph

Deloitte Touche Tohmatsu – C. L. Manabat & Co.  
www.deloitteap.com

Ernst & Young – Punongbayan & Araullo  
www.philippines.ey.com/Philippines

KPMG – Laya and Mananghaya Audit Firm  
...

159
6. Financial Institutions

Development Bank of the Philippines
Land Bank of the Philippines
Philippines Stock Exchange

---

7. Donor Organizations

Asian Development Bank (ADB)
International Monetary Fund (IMF)
Japan Bank for International Cooperation (JBIC)
Japan International Cooperation Agency (JICA)
United Nations Development Programme (UNDP)
United States Agency for International Development (USAID)
World Bank
Appendix 2. Interviewees

Aspects of accounting and auditing were discussed with the following people.

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armin Bauer</td>
<td>Senior Poverty Reduction Specialist</td>
<td>Asian Development Bank (ADB)</td>
</tr>
<tr>
<td>Madeleine Varkay</td>
<td>Investment Officer</td>
<td>ADB</td>
</tr>
<tr>
<td>Laura Walker</td>
<td>Governance Specialist</td>
<td>ADB</td>
</tr>
<tr>
<td>Ben R. Punongbayan</td>
<td>Chair</td>
<td>Auditing Standards and Practices Council (ASPC)</td>
</tr>
<tr>
<td>Antonieta Fortuna-Ibe</td>
<td>Chair</td>
<td>Board of Accountancy (Also Partner: Sycip, Gorres and Velayo Audit Firm SGV – Arthur Andersen)</td>
</tr>
<tr>
<td>Nanette Mercado</td>
<td>Governance Project Coordinator</td>
<td>British Council</td>
</tr>
<tr>
<td>Ronald Baird</td>
<td>First Secretary</td>
<td>Canadian International Development Agency (CIDA)</td>
</tr>
<tr>
<td>Emmanuel M. Dalman</td>
<td>Commissioner</td>
<td>Commission on Audit</td>
</tr>
<tr>
<td>Cornelia C. Ramos</td>
<td>Director III</td>
<td>Commission on Audit</td>
</tr>
<tr>
<td>Marieta SF Acorda</td>
<td>Director for Technical Services</td>
<td>Commission on Audit</td>
</tr>
<tr>
<td>Conchita L. Manabat</td>
<td>Managing Partner Dean</td>
<td>Deloitte Touche Tohmatsu School of Accountancy, St. Scholastica’s College, Former Chairperson – Board of Accountancy</td>
</tr>
<tr>
<td>Luz Bernardo</td>
<td>Partner</td>
<td>Deloitte Touche Tohmatsu</td>
</tr>
<tr>
<td>Ma. Edita Z. Tan</td>
<td>Director III</td>
<td>Department of Finance, International Finance Group</td>
</tr>
<tr>
<td>Name</td>
<td>Title</td>
<td>Institution, Office/Region</td>
</tr>
<tr>
<td>-----------------------</td>
<td>--------------------------------------------</td>
<td>--------------------------------------------------</td>
</tr>
<tr>
<td>Tito S. Nabua</td>
<td>President</td>
<td>Government Association of Certified Public Accountants (GACPA)</td>
</tr>
<tr>
<td></td>
<td>Director</td>
<td>Commission on Audit, Regional Office IV</td>
</tr>
<tr>
<td>Satoru Hagiwara</td>
<td>Deputy Resident Representative</td>
<td>Japan International Cooperation Agency (JICA) – Philippines</td>
</tr>
<tr>
<td>Yuko Arimoto</td>
<td>Assistant Resident Representative</td>
<td>JICA – Philippines</td>
</tr>
<tr>
<td>Jose Gangan</td>
<td>President</td>
<td>Philippine Institute of Certified Public Accountants (PICPA)</td>
</tr>
<tr>
<td>Danilo A. Principe</td>
<td>Ex-Officio Board Member</td>
<td>PICPA (also Past National President)</td>
</tr>
<tr>
<td></td>
<td>Dean</td>
<td>College of Business Administration and Accountancy of the Colegio de San Juan de Letran</td>
</tr>
<tr>
<td>Edijer A. Martinez</td>
<td>Commissioner</td>
<td>Securities and Exchange Commission (SEC)</td>
</tr>
<tr>
<td>Ernesto P. Pineda</td>
<td>Professor of Accounting</td>
<td>University of Philippines, College of Business Administration</td>
</tr>
<tr>
<td>Selina Shum</td>
<td>Lean Financial Analyst</td>
<td>World Bank, Energy and Mining Sector Unit, East Asia and Pacific Region</td>
</tr>
<tr>
<td>Joseph G. Reyes</td>
<td>Financial Management Specialist</td>
<td>World Bank, Philippines Resident Mission</td>
</tr>
<tr>
<td>Gary J. Fine</td>
<td>Senior Private Sector Development Specialist</td>
<td>World Bank, Private Sector Development Unit</td>
</tr>
</tbody>
</table>

162
Appendix 3. Study Information

1. Study Phases

The study had three broad phases as follows:

Phase I  Philippine Case Study on Accounting and Auditing Support and Structures
Phase II  Manila Workshop (12–13 March 2001)
Phase III  Formulation of Action Plan

2. Phase I: Case Study On Accounting and Auditing

This phase involved the examination of the Philippines’ current accounting and auditing structure and systems. It also (i) analyzed the Philippines’ political, institutional, and regulatory and legal framework on accounting and auditing practice and the level of enforcement of existing laws, rules, and regulations; (ii) identified gaps and weaknesses in accounting and auditing support available and deviations from international standards; and (iii) identified alternative options to remedy the identified weaknesses, with the objective of eventually doing away with these.

Barry Reid conducted the fieldwork for the study with the able assistance of Ma. Rita Castillo, from January to February 2001. Financial management and governance arrangements were discussed with representatives from the Department of Finance, the Commission on Audit, other government organizations, professional accounting and auditing bodies, private sector businesses, tertiary institutions, bilateral donors, and multilateral financing institutions. A list of interviewees is attached as Appendix 2.

3. Phase II: Manila Workshop

Issues arising from the study were discussed and debated at a workshop held at ADB Headquarters in Manila on 12–13 March 2001. Forty-five participants attended the workshop (see Appendix 5).

4. Phase III: Formulation of Action Plan

Phase III assessed the roles that ADB and other funding agencies played in improving the current situation in the Philippines. The roles included policy intervention, projects and program assistance, and mobilization of cofinancing resources to address the identified problems and weaknesses.
5. Consultation

Drafts of this report were provided to a variety of organizations and individuals for review. The authors very much appreciate the comments that were provided (see Appendix 4).
Appendix 4. Comments on Draft Report

The following organizations provided written comments on the draft report:

ACPAPP
Association of Certified Public Accountants in Public Practice

ASC
Accounting Standards Council

BSP
Banko Sentral ng Pilipinas

CLM
C. L. Manabat & Co. (Deloitte Touche Tohmatsu)

CMDC
Capital Market Development Center, Inc

COA
Commission on Audit (Assistant Commissioner; Emma Espina)

FINEX [BE]
Financial Executives Institute of the Philippines Research and Development Foundation (Baltazar Endriga)

FINEX [RBA]
Financial Executives Institute of the Philippines Research and Development Foundation (R. S. Burnaldo & Associates)

GACPA
Government Association of Certified Public Accountants

JCC
Joaquin Cunanan & Co. (PriceWaterhouseCoopers)

PSR
PSR Consulting Inc (Cesar Saldana)

SEC
Securities and Exchange Commission

SGV
SyCIP, Gorres, Velayo & Co (Arthur Andersen)
## Appendix 5. Workshop Attendees March 2001

Forty-five representatives from the following organizations attended the first Manila workshop on 12–13 March 2001.

<table>
<thead>
<tr>
<th>Representative</th>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cecille Patricio</td>
<td>Association of Certified Public Accountants in Commerce and Industry (ACPACI)</td>
</tr>
<tr>
<td>Marieta Sorio</td>
<td>Association of Certified Public Accountants in Education (ACPAE)</td>
</tr>
<tr>
<td>Danilo Principe</td>
<td>ACPAE</td>
</tr>
<tr>
<td>Jerry Isla</td>
<td>Association of Certified Public Accountants in Public Practice (ACPAPP)</td>
</tr>
<tr>
<td>Ricardo R. San Andres</td>
<td>Association of Government Internal Auditors (AGIA)</td>
</tr>
<tr>
<td>Carlos Alindada</td>
<td>Accounting Standards Council (ASC)</td>
</tr>
<tr>
<td>Benjamin R. Punonghayan</td>
<td>Auditing Standards and Practices Council (ASPC)</td>
</tr>
<tr>
<td>Norma Lipana</td>
<td>Bureau of Internal Revenue (BIR)</td>
</tr>
<tr>
<td>Antonietta Fortuna-Ibe</td>
<td>Board of Accountancy (BOA)</td>
</tr>
<tr>
<td>Eugene Mateo</td>
<td>BOA</td>
</tr>
<tr>
<td>Maritess Masarap</td>
<td>BOT</td>
</tr>
<tr>
<td>Teresita O. Hatta</td>
<td>Bangko Sentral ng Pilipinas (BSP)</td>
</tr>
<tr>
<td>Ricardo P. Lirio</td>
<td>BSP</td>
</tr>
<tr>
<td>Conchita Manabat</td>
<td>C.L. Manabat &amp; Co (Deloitte Touche Tohmatsu)</td>
</tr>
<tr>
<td>Stewart Hall</td>
<td>Canadian Embassy</td>
</tr>
<tr>
<td>Nide Bombay</td>
<td>Canadian Embassy</td>
</tr>
<tr>
<td>Mercedes Suleik</td>
<td>Capital Market Development Center (CDMC) Inc.</td>
</tr>
<tr>
<td>Regina Fortes</td>
<td>Commission on Higher Education (CHED)</td>
</tr>
<tr>
<td>Emma Espina</td>
<td>Commission on Audit (COA)</td>
</tr>
<tr>
<td>Flerida Creencia</td>
<td>COA</td>
</tr>
<tr>
<td>Emilia Boncodin</td>
<td>Department of Budget and Management (DBM)</td>
</tr>
<tr>
<td>Maria Lourdes Dedal</td>
<td>Department of Finance (DOF)</td>
</tr>
<tr>
<td>Rosario Bernaldo</td>
<td>Financial Executives Institute of the Philippines (FINEX)</td>
</tr>
<tr>
<td>Baltazar Endriga</td>
<td>FINEX</td>
</tr>
<tr>
<td>Alfredo Parungao</td>
<td>FINEX</td>
</tr>
<tr>
<td>Tito S. Nabua</td>
<td>Government Association of Certified Public Accountants (GACPA)</td>
</tr>
<tr>
<td>Representative</td>
<td>Organization</td>
</tr>
<tr>
<td>----------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Anup Jagwani</td>
<td>International Finance Corporation (IFC)</td>
</tr>
<tr>
<td>Edel Vegamora</td>
<td>Institute of Internal Auditors (IIA)</td>
</tr>
<tr>
<td>Corazon Dela Paz</td>
<td>Joaquin Cunanan Audit Firm (PriceWaterhouseCoopers)</td>
</tr>
<tr>
<td>Jose Valencia</td>
<td>Laya &amp; Manangghaya Audit Firm</td>
</tr>
<tr>
<td>Jose Gangan</td>
<td>Philippine Institute of Certified Public Accountants (PICPA)</td>
</tr>
<tr>
<td>Avelina Dela Rea-Tan</td>
<td>Professional Regulation Commission (PRC)</td>
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<tr>
<td>Abelardo Dumondon</td>
<td>PRC</td>
</tr>
<tr>
<td>Cesar Saldana</td>
<td>PSR Consulting</td>
</tr>
<tr>
<td>Edijer A. Martinez</td>
<td>Securities Exchange Commission (SEC)</td>
</tr>
<tr>
<td>Rene Santos</td>
<td>SEC</td>
</tr>
<tr>
<td>Juliet Barreto</td>
<td>SEC</td>
</tr>
<tr>
<td>David Balangue</td>
<td>Sycip, Gorres, Velayo &amp; Co (Arthur Andersen)</td>
</tr>
<tr>
<td>Eduardo De Guia</td>
<td>Sycip, Gorres, Velayo &amp; Co (Arthur Andersen)</td>
</tr>
<tr>
<td>Cecilia Ortiz</td>
<td>St. Scholastica’s College</td>
</tr>
<tr>
<td>Arthur Cayanan</td>
<td>University of the Philippines</td>
</tr>
<tr>
<td>Karoly Okolicsanyi</td>
<td>United States Agency for International Development (USAID)</td>
</tr>
<tr>
<td>Fatima Almeida</td>
<td>USAID</td>
</tr>
<tr>
<td>Sonia Cruz</td>
<td>USAID</td>
</tr>
<tr>
<td>Joseph Reyes</td>
<td>World Bank</td>
</tr>
</tbody>
</table>
Appendix 6. International Accounting Standards

The following IASs were in effect at 31 January 2001.\textsuperscript{218,219}

<table>
<thead>
<tr>
<th>IAS</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAS 1</td>
<td>Presentation of Financial Statements</td>
</tr>
<tr>
<td>IAS 2</td>
<td>Inventories</td>
</tr>
<tr>
<td>IAS 7</td>
<td>Cash Flow Statements</td>
</tr>
<tr>
<td>IAS 8</td>
<td>Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies</td>
</tr>
<tr>
<td>IAS 10</td>
<td>Events After the Balance Sheet Date</td>
</tr>
<tr>
<td>IAS 11</td>
<td>Construction Contracts</td>
</tr>
<tr>
<td>IAS 12</td>
<td>Income Taxes</td>
</tr>
<tr>
<td>IAS 14</td>
<td>Segment Reporting</td>
</tr>
<tr>
<td>IAS 15</td>
<td>Information Reflecting the Effects of Changing Prices</td>
</tr>
<tr>
<td>IAS 16</td>
<td>Property, Plant and Equipment</td>
</tr>
<tr>
<td>IAS 17</td>
<td>Leases</td>
</tr>
<tr>
<td>IAS 18</td>
<td>Revenue</td>
</tr>
<tr>
<td>IAS 19</td>
<td>Employee Benefits</td>
</tr>
<tr>
<td>IAS 20</td>
<td>Accounting for Government Grants and Disclosure of Government Assistance</td>
</tr>
<tr>
<td>IAS 21</td>
<td>The Effects of Changes in Foreign Exchange Rates</td>
</tr>
<tr>
<td>IAS 22</td>
<td>Business Combinations</td>
</tr>
<tr>
<td>IAS 23</td>
<td>Borrowing Costs</td>
</tr>
<tr>
<td>IAS 24</td>
<td>Related Party Disclosures</td>
</tr>
<tr>
<td>IAS 26</td>
<td>Accounting and Reporting by Retirement Benefit Plans</td>
</tr>
<tr>
<td>IAS 27</td>
<td>Consolidated Financial Statements and Accounting for Investments in Subsidiaries</td>
</tr>
<tr>
<td>IAS 28</td>
<td>Accounting for Investments in Associates</td>
</tr>
<tr>
<td>IAS 29</td>
<td>Financial Reporting in Hyperinflationary Economies</td>
</tr>
<tr>
<td>IAS 30</td>
<td>Disclosures in the Financial Statements of Banks and Similar Financial Institutions</td>
</tr>
<tr>
<td>IAS 31</td>
<td>Financial Reporting of Interests in Joint Ventures</td>
</tr>
<tr>
<td>IAS 32</td>
<td>Financial Instruments: Disclosures and Presentation</td>
</tr>
<tr>
<td>IAS 33</td>
<td>Earnings Per Share</td>
</tr>
<tr>
<td>IAS 34</td>
<td>Interim Financial Reporting</td>
</tr>
<tr>
<td>IAS 35</td>
<td>Discontinuing Operations</td>
</tr>
<tr>
<td>IAS 36</td>
<td>Impairment of Assets</td>
</tr>
<tr>
<td>IAS 37</td>
<td>Provisions, Contingent Liabilities and Contingent Assets</td>
</tr>
<tr>
<td>IAS 38</td>
<td>Intangible Assets</td>
</tr>
<tr>
<td>IAS 39</td>
<td>Financial Instruments: Recognition and Measurement</td>
</tr>
<tr>
<td>IAS 40</td>
<td>Investment Property</td>
</tr>
<tr>
<td>IAS 41</td>
<td>Agriculture</td>
</tr>
</tbody>
</table>

\textsuperscript{218} Source: IASC Website: www.iasc.org.uk

\textsuperscript{219} The following IASs have been withdrawn:

- IAS 3 was replaced by IAS 27 and IAS 28.
- IAS 4 was replaced by IASs 16, 22, and 38.
- IAS 5 was replaced by IAS 1.
- IAS 6 was replaced by IAS 15.
- IAS 9 was superseded by IAS 38.
- IAS 13 was replaced by IAS 1.
- IAS 25 was replaced by IAS 39 and IAS 40.
### Appendix 7. IASB Work Plan

The Work Plan of the International Accounting Standards Board (IASB) at 30 September 2000 is as follows.\(^{220}\)

<table>
<thead>
<tr>
<th>Issue</th>
<th>Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>• Exposure Draft E65: published July 1999</td>
</tr>
<tr>
<td></td>
<td>• Final IAS: planned 4th quarter 2000</td>
</tr>
<tr>
<td>Business Combinations</td>
<td>• Added to Agenda: 4th quarter 1998</td>
</tr>
<tr>
<td></td>
<td>• G4+1 Discussion Paper: published 2nd half 1998</td>
</tr>
<tr>
<td></td>
<td>• Specific IASC steps are not yet determined</td>
</tr>
<tr>
<td>Business Reporting on the Internet</td>
<td>• Staff Research Project</td>
</tr>
<tr>
<td></td>
<td>• Discussion Paper: published November 1999</td>
</tr>
<tr>
<td></td>
<td>• Added to the Board’s Work Program: March 2000</td>
</tr>
<tr>
<td>Emerging Economies</td>
<td>• Project Added to Agenda April 1998</td>
</tr>
<tr>
<td></td>
<td>• August 2000: Survey on Barter Transactions</td>
</tr>
<tr>
<td>Extractive Industries (including Mining and Oil and Gas)</td>
<td>• Project Added to Agenda April 1998</td>
</tr>
<tr>
<td></td>
<td>• Issues Paper: planned 3rd quarter 2000</td>
</tr>
<tr>
<td>Financial Instruments – Comprehensive Project</td>
<td>• Issues Paper: published 1st quarter 1997</td>
</tr>
<tr>
<td></td>
<td>• Joint Working Group Report including draft Exposure Draft: planned 2000</td>
</tr>
<tr>
<td></td>
<td>• Exposure Draft E66, Limited Revisions to IAS 39: published July 2000</td>
</tr>
<tr>
<td></td>
<td>• Implementation guidance is being developed</td>
</tr>
<tr>
<td>Insurance</td>
<td>• Project approved April 1997</td>
</tr>
<tr>
<td></td>
<td>• Issues Paper: published December 1999</td>
</tr>
<tr>
<td>Pension Plan Assets</td>
<td>• Exposure Draft E67: published July 2000</td>
</tr>
<tr>
<td>Present Value (formerly ’Discounting’)</td>
<td>• Project Added to Agenda April 1998</td>
</tr>
<tr>
<td></td>
<td>• Issues Paper: planned 2nd half 2000</td>
</tr>
</tbody>
</table>

\(^{220}\) Source: IASC Website. [http://www.iasc.org.uk/frame/cen3.4.htm](http://www.iasc.org.uk/frame/cen3.4.htm)
<table>
<thead>
<tr>
<th>Issue</th>
<th>Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reporting Financial Performance</td>
<td>• G4+1 Position Paper: published August 1999</td>
</tr>
<tr>
<td></td>
<td>• Draft Statement of Principles: planned 4th quarter 2000</td>
</tr>
<tr>
<td>Disclosures by Banks and Similar Financial Institutions</td>
<td>• Steering Committee appointed: June 2000</td>
</tr>
<tr>
<td>Tax Consequences of Dividends</td>
<td>• Exposure Draft ED 68: published July 2000</td>
</tr>
<tr>
<td>Transition</td>
<td>• Undecided</td>
</tr>
</tbody>
</table>
Appendix 8. **International Standards on Auditing**

The following International Standards on Auditing (ISAs) and International Auditing Practice Statements (IAPs) were in effect at 30 September 2000.

### International Standards on Auditing (ISAs)

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>Assurance Engagements</td>
</tr>
<tr>
<td>120</td>
<td>Framework of ISAs</td>
</tr>
<tr>
<td>200</td>
<td>Objective and General Principles Governing an Audit of Financial Statements</td>
</tr>
<tr>
<td>210</td>
<td>Terms of Audit Engagements</td>
</tr>
<tr>
<td>220</td>
<td>Quality Control for Audit Work</td>
</tr>
<tr>
<td>230</td>
<td>Documentation</td>
</tr>
<tr>
<td>240</td>
<td>Fraud and Error</td>
</tr>
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<td>Audit Evidence-Additional Considerations for Specific Items</td>
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<td>Audit Sampling and other Selective Testing</td>
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<td>Other Information in Documents Containing Audited Financial Statements</td>
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### Glossary of Terms

Preface to ISAs and RSs

### International Auditing Practice Statements (IAPSs)

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Appendix 9. International Standards and Guidelines on Professional Arrangements

The International Federation of Accountants (IFAC) Board created a Compliance Committee in May 2000. The Committee is one of several initiatives designed to strengthen IFAC and the international profession. Its primary responsibilities are: (i) monitoring the relevance, sufficiency, and efficacy of IFAC membership obligations; (ii) monitoring member body compliance with these obligations; (iii) recommending actions to the IFAC Board and Council in respect of membership obligations; (iv) reviewing the investigative and disciplinary processes of member bodies, and reporting and making recommendations on these to the IFAC Board and Council; (v) considering how member bodies might best be encouraged, or if necessary, required to comply more closely with such obligations; (vi) devising schemes to assist member bodies to comply more closely and to considering whether additional powers are required to enforce compliance with membership obligations; and (vii) implementing agreed policy in this area. The Compliance Committee will also work closely with members of the Transnational Audit Committee (TAC) in its monitoring of the members of the IFAC Forum of Firms (FOF).

As a member body of IFAC, Philippine Institute of Certified Public Accountants (PICPA) will be monitored by the IFAC Compliance Committee. Table 20 sets out relevant international guidelines with respect to the accountancy profession. IFAC has also established a Money Laundering Taskforce. The Taskforce has obtained information from around the world on what other professional bodies are doing and is currently analyzing these activities. This is a first step in determining its scope of activities. Included in the Taskforce's work will be consideration of whether standards will be developed to help member bodies and their members to address money laundering and related issues.
Table 20: International Guidelines for the Accountancy Profession

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<td>World Trade Organization (WTO): General Agreement on Trade in Services (GATS)</td>
<td>The criteria for recognizing professional qualifications may not exceed what is necessary to ensure the quality of service. Each country is expected to have a methodology for comparing professional qualifications and this must be applied in a fair and consistent manner to all applicants.</td>
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IFAC pronouncements cover several areas:

- **Education Guidelines and Standards.** IFAC’s Education Committee issues International Education Standards (IESs) and International Education Guidelines (IEGs). The IESs are intended to establish the essential elements on which education and training programs, both prequalification and postqualification, for all accountants should be founded. The IEGs promote good practice and provide guidance in this respect. They are based on careful studies of best practices and the most effective methods for dealing with the issues being addressed.

- **Code of Ethics for Professional Accountants.** This is intended to serve as a model on which to base national ethical guidance. It sets standards of conduct for professional accountants and states the fundamental principles that should be observed by professional accountants in order to achieve common objectives.

- **Statement of Policy of Council: Implementation and Enforcement of Ethical Requirements.** This statement sets expectations and provides guidance on disciplinary action, including punishment and publicity.

- **Assuring the Quality of Professional Services.** This statement sets expectations on quality control policies and procedures for member bodies and professional firms.

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In February 1999, UNCTAD issued a report on accounting education and qualifications.\textsuperscript{225} The report provides a useful set of benchmarks in respect of these issues, in particular:

- Guideline for a Global Accounting Curriculum and Other Qualification Requirements, which includes (i) requirements for the qualifications of professional accountants, and (ii) a guideline for national systems for the qualifications of professional qualifications.
- Global Curriculum for the Professional Education of Professional Accountants, which includes (i) organizational and business knowledge, (ii) information technology, and (iii) accounting and accounting-related knowledge.

Furthermore, and importantly, ISAR has initiated a project to assess the competence of accountants. The objective of the project is to rate professional accounting qualifications from around the world and, by doing so, to create impetus for improvements and to support international skill transferability.\textsuperscript{226}


Appendix 10. PICPA Committees

- **Ethics Board** – has a Chair and eight members. Its functions are described on page 60.
- **Annual Business Meeting Committee** – organizes the annual business meeting.
- **Awards Committee** – screens and selects award nominees and makes conferral recommendations to the Board for approval. Awards include the Outstanding CPA of the Year, Honorary Lifetime Memberships, individual awards, and the Hall of Fame Award. It also guides regional councils on regional award processes.
- **Fellowship and Sports Committee** – formulates programs to compliment PICPA services and provide networking opportunities.
- **Legislation Committee** – represents PICPA interests in relation to domestic and international legislative issues.
- **Library and Archives Committee** – ensures that the library system and facilities are of high quality.
- **Membership Development Committee** – attracts new members.
- **Professional Development and Research Committee** – identifies sectoral needs and develops appropriate programs and oversees their implementation.
- **Public Affairs Committee** – promotes confidence in the Institute and its members.
- **Publications Committee** – ensures that technical and professional publications meet high standards.
- **Social Involvement Committee** – implements programs to enhance PICPA's image, social responsibility and visibility.
- **Regions, Chapters and Affiliates Committee** – coordinates these relationships.
- **Scholarship and Educational Assistance Committee** – administers the Institute’s financial assistance programs.
- **Student's Participation Committee** – coordinates PICPA's involvement with the National Federation of Junior Philippine Accountants.
- **Building, Grounds and Facilities Committee** – coordination and administration role.
- **Career and Opportunities Development Committee** – coordinates job placement and liaises between potential employees and employers.
• National Commission on Elections (COMELEC) – coordinates and administers election processes.
• Cooperatives Committee – supports cooperatives.
• Taxation Committee – proactively represents PICPA on new or proposed tax legislation and regulations.
• Accountancy Week Committee – organizes this annual event.
• Annual Accounting Teachers’ Events Committee – organizes this annual event.
• Annual National Convention Committee – organizes this annual event.
• Continuing Professional Education (CPE) on the Road Committee – organizes and implements this major initiative.
• Environmental Accounting Committee – works to fulfill the Institute’s commitment to improved environmental accounting.
• Financial Management Committee – works to widen the horizons of CPAs.
• Friends of PICPA Privilege Card System Committee – coordinates this discount program.
• Government Accounting Committee – focuses and promotes this sector and associated issues.
• Information Technology Committee – focuses and promotes this sector and associated issues.
• Management Accounting Committee – focuses and promotes this sector and associated issues.
• Management Information Systems Committee – oversees improvements to the Institute’s computerized systems.
• Long-Range Planning Committee – reviews activities and environmental events, and examines how these might affect PICPA.
Appendix 11. Restrictiveness Indexes for Accountancy Services

Reproduced from: Nguyen-Hong, Duc. August 2000. Restrictions on Trade in Professional Services. Staff Research Paper. Commonwealth of Australia: Australian Productivity Commission. p. 40. Notes: (i) Figures may not add up to total due to rounding. (ii) The restrictiveness index scores range from 0 to 1. The higher the score, the greater are the restrictions for an economy.

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Appendix 12. Extracts from PICPA’s Amended Bylaws

Among other things, the new bylaws place increased emphasis on membership responsibilities, the requirement to be a PICPA member, and the requirement to pay PICPA dues (Article V ss. 6, 12: Article VI ss. 1).

Contents

**Article I – Name, Objectives And Values**
Section 1. NAME, OBJECTIVES AND VALUES. PICPA adheres to the highest ideals of professionalism and commitment to service and upholds such values as: integrity, professional excellence, innovation, discipline, teamwork, social responsibility and commitment.

**Article II – Seal**

**Article III – Office**

**Article IV – Organization**

**Article V – Membership**
Section 1. QUALIFICATIONS. All certified public accountants whose names appear in the Registry of Professionals of the Professional Regulation Commission are automatically and without exception, members of the Philippine Institute of Certified Public Accountant and shall continue to be one except the following: (a) Those who are deceased; (b) Those who by choice no longer practice their profession but whose names appear in the Register maintained by the Professional Regulation Commission and have formally filed with the Commission their intention to retire from practice.

Section 2. REGISTRATION. Unless he has already previously registered, every member heretofore admitted by the Professional Regulation Commission as Certified Public Accountants shall register with the Philippines Institute of Certified Public Accountants at the National Office or at the office of his chapter.

Section 3. CERTIFICATE OF MEMBERSHIP. It shall be the duty of every CPA, qualified under Section 1 of this Article, to submit his curriculum vitae which shall include his permanent residence and place of office, as the basis for the issuance of a Certificate of Membership in a form prescribed by the National Board of Directors.

Section 4. GRANTING OF CERTIFICATE OF MEMBERSHIP. Every member of PICPA shall be entitled to a Certificate of Membership upon verification of his qualifications by the National Board of...
Directors and upon payment of the required dues prescribed in these Bylaws.

Section 5. MEMBERSHIP PLEDGE. Every Certified Public Accountant, entitled to a Certificate as above provided, shall take the PICPA Membership Pledge before any national, regional or chapter officer, at any monthly meeting of members, or in any national, regional or chapter office. The Certificate of Membership shall thereupon be issued to him.

Section 6. DUTIES AND RESPONSIBILITIES OF MEMBERS. (1) To pay PICPA dues and other PICPA assessments; (2) To abide by the articles of incorporation and bylaws and other issuances of PICPA; (3) to continually develop himself professionally; and (4) to actively participate in all the activities of PICPA.

Section 7. CHAPTER MEMBERS AND SECTOR MEMBERS. Every member of PICPA shall be both a member of a Chapter and a member of a Sector. A CPA shall be a member of the Chapter of the province or city where his residence or place of business is located. At the time of registration, a CPA shall also elect to be a member of a sector regardless of his chapter affiliation. In no case shall any CPA be a member of more than one (1) chapter or sector or transfer to another chapter of sector three (3) months before or after any election.

Section 8. CLASSIFICATION OF MEMBERS. Membership with Philippine Institute of Certified Public Accountants shall be classified into active, sustaining life, honorary life, honorary and associate.

Section 9. ACTIVE MEMBERS. Active members shall apply to those who became members of PICPA pursuant to Sections 1 and 2 of this Article.

Section 12. MEMBERS IN GOOD STANDING. A member in good standing is an active member whose accounts with the Institute are current and membership dues are fully paid. Whenever membership in good standing is required for purposes of qualification or eligibility in any PICPA activity and there is no specific cut-off date provided in these Bylaws within which members may pay their dues, the Board of Directors shall be empowered to set such date. Members in good standing shall also include Sustaining Life Members and Honorary Life Members, participation in chapter activities, attendance in at least three (3) monthly meetings in a year, involvement in the election process both national and chapter levels, possessing a valid CPA license at anytime, acting in a manner befitting of a professional.

Termination and Reinstatement of Membership

**Article VI – Termination and Reinstatement of Membership**

Section 1. LOSS OR SUSPENSION OF MEMBERSHIP. Since the membership in the PICPA may be a condition to the continuing validity of the Certificate of Registration of a Certified Public Accountant, loss of membership in PICPA may be a sufficient cause for the revocation of the Certificate of Registration as Certified Public Accountant by the Professional Regulation Commission.

The National Board of Directors shall adopt rules concerning the suspension or loss of membership, and for the reinstatement of members. The suspension of, or loss of membership by a member by reason of delay, in or non-payment of membership dues, or for any other just cause as provided by the rules to be adopted shall be subject to the review and approval of the Professional Regulation Commission.

Section 2. VOLUNTARY TERMINATION OF MEMBERSHIP. Any member may resign from membership in the National Organization THROUGH A WRITTEN NOTICE SUBMITTED to the Secretary provided that, even if a resignation’s affectivity date is fixed in said notice, such
resignation shall not be effective until acted upon by the National Board of Directors, such action to be taken within thirty (30) days from receipt of said notice. Upon approval of the termination of membership, the Secretary of PICPA shall immediately bring the matter to the attention of the Professional Regulation Commission. Forthwith the member concerned shall cease to be a member and his name shall be stricken by the Professional Regulation Commission from the Registry of Certified Public Accountants.

Section 3. FAILURE TO PAY DUES OR OTHER ACCOUNTS. Any member whose dues or other accounts remain unpaid after the prescribed last day of payment as provided in these Bylaws shall be dropped from the membership roster upon the expiration of sixty (60) days from the date the notice to that effect is sent via messenger or registered mail unless payment is effective prior to the expiration of the sixty (60) day period.

Article VII – National Board of Directors

Article VIII – National Executive Officers

Article IX – Regional and Sectoral Councils

Article X – Chapters and Affiliates

Article XI – Elections

Section 13. MANNER OF VOTING. Voting for the election of directors shall be by ballots personally cast or by proxy in the designated venue and date set by the COMELEC using its official pre-numbered ballots.

Article XII – Meeting of PICPA Members

Article XIII – National Committees

Section 1. NATIONAL COMMITTEES. The National Board of Directors shall be empowered to create as many National Committees as may be necessary, the functions of which shall be defined upon their creation, including their requisite jurisdiction and/or affiliation.

Article XIV – Finances

Section 2. ENTRANCE FEE. Members shall pay an entrance fee at an amount which shall be determined by the National Board of Directors. No application shall be considered unless it is accompanied by the required entrance fee.

Section 3. DUES AND OTHER ACCOUNTS. Members shall pay their annual membership dues at an amount which shall be determined by the National Board of Directors with the approval of the Professional Regulation Commission. However, any duly approved change in the rate of the annual membership dues shall not become effective until the next succeeding year and only after due notice shall have been given to the membership.

Membership dues shall be apportioned as follows:

- Thirty-Five percent (35%) for the Chapter;
- TEN percent (10%) for the Regional Council;
- TEN percent (10%) for the Sectoral Council;
- FORTY-FIVE percent (45%) for the National Office;

Article XV – Special Provisions

Article XVI – Rules of Order

Article XVII – Rules of Professional Conduct

To strengthen the foundation of the accountancy profession in the Philippines there must be unity of purpose and a clear concept of the obligations of all Certified Public Accountants to other profession, their clients or employer, to their colleagues in the profession, and to the public. These obligations include the
maintenance of high standards to technical competence, morality and integrity. For this purpose, the Code of Professional Ethics for Certified Public Accountants as promulgated by the Board of Accountancy on March 15, 1978 is hereby made part of this Bylaws to which all members of PICPA must adhere.

**Article XVIII – Ethics Board**

Section 1. THE BOARD AND TERM OF MEMBERS. The Ethics Board shall be composed of a Chairman and eight (8) members, each of whom shall be appointed by the National Board of Directors of PICPA upon the recommendation of the President for a term of three (3) years provided that the Chairman and the members who shall be appointed to compose the Board for the first time shall serve as follows:

- The Chairman and two (2) members for a term of three (3) years;
- Three (3) members for a term of two (2) years; and
- Three (3) members for a term of one (1) year.

The term of office of the Chairman and members of the Board shall commence on the first day of January. Interim appointment to fill vacancies in the members of the Board by reason of death, removal, incapacity or for other cause shall be made only for the unexpired term of the member replaced, provided that at no time there shall be more than one (1) member who is connected with same accounting firm or office.

**SECTION 2. QUALIFICATIONS OF MEMBERS.** The members of the Board shall be: (a) a member in good standing for at least five (5) years counted up to January of the year of his appointment, (b) a holder of the CPA Certificate for a continuous period of at least ten (10) years counted up to January of the year of his appointment, (c) with unquestionable moral character; provided that the Board shall be composed at any time of at least five (5) members including the Chairman who are, or who have been in the practice of public accounting for at least ten (10) years.

Section 4. DISQUALIFICATIONS. No member of the Board shall be qualified to take part in any case before the Board in which:

(a) He is directly or indirectly connected or involved; or
(b) He is a relative by consanguinity or affinity, within the fourth civil degree, to any of the parties to the case; or
(c) He is or might be interested in the result of the case.

Any question involving the disqualification of a member shall be resolved by a majority vote of the members present except the members concerned. For the purpose of this section, FIVE (5) members, excluding the members whose disqualification is in question, shall constitute a quorum and the concurrence of the five (5) shall be necessary to render any decision.

Section 6. JURISDICTION. The Board shall take cognizance of and hear and decide cases:

(a) involving violations of any provisions of the PICPA Constitution and ByLaws;
(b) involving violations of any provision of the Rules of Professional Conduct of the Board of Accountancy;
(c) involving any of the grounds provided by the Rules and Regulations of the Board of Accountancy for proceeding against a Certified Public Accountant.

Section 9. PENALTIES. The Board, after the hearing, may reprimand the member; recommend the suspension of his membership for a period not exceeding five (5) years; or recommend the revocation of his membership from PICPA if adjudged guilty of the offense.
complained of. The suspension or revocation of membership shall become final only after REVIEW AND approval by the NATIONAL BOARD OF DIRECTORS.

Section 11. PRESCRIPTION. The Ethics Board shall have jurisdiction to hear and decide cases within five (5) years from the date of their commission to the date of filing the complaint.

Section 12. AUTHORITY TO PROMULGATE RULES AND REGULATIONS. The Ethics Board shall promulgate such rules and regulations including the table of penalties as may be necessary to enforce and implement the intent and provisions of Article XVIII of these ByLaws which rules and regulations shall take effect thirty (30) days after complete publication in the Accounting Times or even other publication of PICPA as may supersede it. Publication in the Accounting Times or such other publication which may supersede it shall mean the date of complete release of the monthly organ for distribution to the members by mail or messenger service.

The Ethics Board may, in addition to, as an alternative to such publication, circularize the rules and regulations to the members in which case the rules and regulations shall take effect thirty (30) days after the complete release to the members of the circular.

Section 13. APPROPRIATION. The operational expenses of the Board shall be taken from a revolving fund which shall be appropriated by the National Board of Directors from time to time out of the General Fund of the National Organization.

Section 14. EFFECTIVITY. The Ethics Board shall take cognizance of cases which were committed after its operation as well as those which may be referred to it by the National Board of Directors.

Article XIX – Amendments

Article XX – Transitory Provisions

Appendices
Appendix 13. Extracts from the Securities Regulation Code

The Securities Regulation Code 2000 [Republic Act No. 8799]
Approved 19 July 2000

Chapter I – Title and Definitions

Chapter II – Securities and Exchange Commission

SEC. 5. Powers and Functions of the Commission. – 5.1. The Commission shall act with transparency and shall have the powers and functions provided by this Code, Presidential Decree No. 902-A, the Corporation Code, the Investment Houses Law, the Financing Company Act and other existing laws. Pursuant thereto the Commission shall have, among others, the following powers and functions: (a) Have jurisdiction and supervision over all corporations, partnerships or associations who are the grantees of primary franchises and/or a license or permit issued by the Government; (b) Formulate policies and recommendations on issues concerning the securities market, advise Congress and other government agencies on all aspects of the securities market and propose legislation and amendments thereto; (c) Approve, reject, suspend, revoke or require amendments to registration statements, and registration and licensing applications; (d) Regulate, investigate or supervise the activities of persons to ensure compliance; (e) Supervise, monitor, suspend or take over the activities of exchanges, clearing agencies and other SROs; (f) Impose sanctions for the violation of laws and the rules, regulations and orders issued pursuant thereto; (g) Prepare, approve, amend or repeal rules, regulations and orders, and issue opinions and provide guidance on and supervise compliance with such rules, regulations and orders; (h) Enlist the aid and support of and/or deputize any and all enforcement agencies of the Government, civil or military as well as any private institution, corporation, firm, association or person in the implementation of its powers and functions under this Code; (i) Issue cease and desist orders to prevent fraud or injury to the investing public; (j) Punish for contempt of the Commission, both direct and indirect, in accordance with the pertinent provisions of and penalties prescribed by the Rules of Court; (k) Compel the officers of any registered corporation or association to call meetings of stockholders or members thereof under its supervision; (l) Issue subpoena duces tecum and summon witnesses to appear in any proceedings of the Commission and in appropriate cases, order the examination, search and seizure of all documents, papers, files and records, tax returns, and books of accounts of any entity or person under investigation as may be necessary for the proper disposition of the cases before it, subject to the provisions of existing laws; (m) Suspend, or revoke, after proper notice and hearing the franchise or certificate of registration of corporations, partnerships or associations, upon any of the grounds provided by law; and (n) Exercise such other powers as may be provided by law as well as those which may be implied from, or which are necessary or incidental to the carrying out of, the express powers granted the Commission to achieve the objectives and purposes of these laws.

Chapter III – Registration of Securities

SEC. 8. Requirement of Registration of Securities – 8.5. The Commission may audit the financial statements, assets and other information of a firm applying for
registration of its securities whenever it deems the same necessary to insure full disclosure or to protect the interest of the investors and the public in general.

Chapter IV – Regulation of Pre-Need Plans

SEC. 16. Pre-Need Plans. – No person shall sell or offer for sale to the public any pre-need plan except in accordance with rules and regulations which the Commission shall prescribe. Such rules shall regulate the sale of pre-need plans by, among other things, requiring the registration of pre-need plans, licensing persons involved in the sale of pre-need plans, requiring disclosures to prospective plan holders, prescribing advertising guidelines, providing for uniform accounting system, reports and record keeping with respect to such plans, imposing capital, bonding and other financial responsibility, and establishing trust funds for the payment of benefits under such plans.

Chapter V – Reportorial Requirements

SEC. 17. Periodic and Other Reports of Issuers. – 17.1. Every issuer satisfying the requirements in Subsection 17.2 hereof shall file with the Commission: (a) Within one hundred thirty-five (135) days, after the end of the issuer’s fiscal year, or such other time as the Commission may prescribe, an annual report which shall include, among others, a balance sheet, profit and loss statement and statement of cash flows, for such last fiscal year, certified by an independent certified public accountant, and a management discussion and analysis of results of operations; and (b) Such other periodical reports for interim fiscal periods and current reports on significant developments of the issuer as the Commission may prescribe as necessary to keep current information on the operation of the business and financial condition of the issuer.

17.2. The reportorial requirements of Subsection 17.1 shall apply to the following: (a) An issuer which has sold a class of its securities pursuant to a registration under Section 12 hereof: Provided, however, That the obligation of such issuer to file reports shall be suspended for any fiscal year after the year such registration became effective if such issuer, as of the first day of any such fiscal year, has less than one hundred (100) holders of such class of securities or such other number as the Commission shall prescribe and it notifies the Commission of such; (b) An issuer with a class of securities listed for trading on an Exchange; and (c) An issuer with 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: Provided, however, That the obligation of such issuer to file reports shall be terminated ninety (90) days after notification to the Commission by the issuer that the number of its holders holding at least one hundred (100) shares is reduced to less than One hundred (100).

17.3. Every issuer of a security listed for trading on an Exchange shall file with the Exchange a copy of any report filed with the Commission under Subsection 17.1 hereof.

17.4. All reports (including financial statements) required to be filed with the Commission pursuant to Subsection 17.1 hereof shall be in such form, contain such information and be filed at such times as the Commission shall prescribe, and shall be in lieu of any periodical or current reports or financial statements otherwise required to be filed under the Corporation Code.

17.5. Every issuer which has a class of equity securities satisfying any of the requirements in Subsection 17.2 shall
furnish to each holder of such equity security an annual report in such form and containing such information as the Commission shall prescribe.

17.6. Within such period as the Commission may prescribe preceding the annual meeting of the holders of any equity security of a class entitled to vote at such meeting, the issuer shall transmit to such holders an annual report in conformity with Subsection 17.5.

Chapter VI – Protection of Shareholder Interests

SEC. 22. Internal Record Keeping and Accounting Controls. – Every issuer which has a class of securities that satisfies the requirements of Subsection 17.2 shall:

22.1. Make and keep books, records, and accounts which, in reasonable detail accurately and fairly reflect the transactions and dispositions of assets of the issuer;

22.2. Devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that: (a) Transactions and access to assets are pursuant to management authorization; (b) Financial statements are prepared in conformity with generally accepted accounting principles that are adopted by the Accounting Standards Council and the rules promulgated by the Commission with regard to the preparation of financial statements; and (c) Recorded assets are compared with existing assets at reasonable intervals and differences are reconciled.

Chapter VII – Prohibitions on Fraud, Manipulation and Insider Trading

Chapter VIII – Regulation of Securities Market Professionals

SEC. 31. Development of Securities Market Professionals. – The Commission, in joint undertaking with self regulatory organizations, organizations and associations of finance professionals as well as private educational and research institutions shall undertake or facilitate/organize continuing training, conferences/ seminars, updating programs, research and development as well as technology transfer at the latest and advanced trends in issuance and trading of securities, derivatives, commodity trades and other financial instruments, as well as securities markets of other countries.

Chapter IX – Exchanges and Other Securities Trading Markets

Chapter X – Registration, Responsibilities and Oversight of Self-Regulatory Organizations

This chapter seemingly provides the SEC with the power to recognize PICPA and, if it does so, to discipline and expel members.

Chapter XI – Acquisition and Transfer of Securities and Settlement of Transactions in Securities

Chapter XII – Margin and Credit

Chapter XIII – General Provisions

51.3. It shall be unlawful for any director or officer of, or any owner of any securities issued by, any issuer required to file any document, report or other information under this Code or any rule or regulation of the Commission thereunder, without just cause, to hinder, delay or obstruct the making or filing of any such document, report, or information.

51.4. It shall be unlawful for any person to aid, abet, counsel, command, induce or procure any violation of this Code, or any rule, regulation or order of the Commission thereunder.

51.5. Every person who substantially assists the act or omission of any person primarily liable under Sections 57, 58, 59 and 60 of this Code, with knowledge or in reckless disregard that such act or omission is wrongful, shall be jointly and severally liable as an aider and abettor for
damages resulting from the conduct of the person primarily liable: Provided, however, That an aider and abettor shall be liable only to the extent of his relative contribution in causing such damages in comparison to that of the person primarily liable, or the extent to which the aider and abettor was unjustly enriched thereby, whichever is greater.

SEC. 52. Accounts and Records, Reports, Examination of Exchanges, Members, and Others. – 52.1. Every registered Exchange, broker or dealer, transfer agent, clearing agency, securities association, and other self-regulatory organization, and every other person required to register under this Code, shall make, keep and preserve for such periods, records, furnish such copies thereof, and make such reports, as the Commission by its rules and regulations may prescribe. Such accounts, correspondence, memoranda, papers, books, and other records shall be subject at any time to such reasonable periodic, special or other examinations by representatives of the Commission as the Commission may deem necessary or appropriate in the public interest or for the protection of investors.

52.3 For purposes of this Section, the term “records” refers to accounts, correspondence, memoranda, tapes, discs, papers, books and other documents or transcribed information of any type, whether written or electronic in character.

SEC. 53. Investigations, Injunctions and Prosecution of Offenses. – 53.1. The Commission may, in its discretion, make such investigations as it deems necessary to determine whether any person has violated or is about to violate any provision of this Code, any rule, regulation or order thereunder, or any rule of an Exchange, registered securities association, clearing agency, other self-regulatory organization, and may require or permit any person to file with it a statement in writing, under oath or otherwise, as the Commission shall determine, as to all facts and circumstances concerning the matter to be investigated. The Commission may publish information concerning any such violations, and to investigate any fact, condition, practice or matter which it may deem necessary or proper to aid in the enforcement of the provisions of this Code, in the prescribing of rules and regulations thereunder, or in securing information to serve as a basis for recommending further legislation concerning the matters to which this Code relates: Provided, however, That any person requested or subpoenaed to produce documents or testify in any investigation shall simultaneously be notified in writing of the purpose of such investigation: Provided, further, That all criminal complaints for violations of this Code, and the implementing rules and regulations enforced or administered by the Commission shall be referred to the Department of Justice for preliminary investigation and prosecution before the proper court: Provided, furthermore, That in instances where the law allows independent civil or criminal proceedings of violations arising from the same act, the Commission shall take appropriate action to implement the same: Provided, finally, That the investigation, prosecution, and trial of such cases shall be given priority.

SEC. 56. Civil Liabilities on Account of False Registration Statement. – 56.1. Any person acquiring a security, the registration statement of which or any part thereof contains on its effectivity an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make such statements not misleading, and who suffers damage, may sue and recover damages from the following enumerated persons, unless it is proved that at the time of such acquisition he knew of such untrue statement or omission:
Every auditor or auditing firm named as having certified any financial statements used in connection with the registration statement or prospectus.

SEC. 57. Civil Liabilities Arising in Connection With Prospectus, Communications and Reports. 57.2. Any person who shall make or cause to be made any statement in any report, or document filed pursuant to this Code or any rule or regulation thereunder, which statement was at the time and in the light of the circumstances under which it was made false or misleading with respect to any material fact, shall be liable to any person who, not knowing that such statement was false or misleading, and relying upon such statements shall have purchased or sold a security at a price which was affected by such statement, for damages caused by such reliance, unless the person sued shall prove that he acted in good faith and had no knowledge that such statement was false or misleading.

SEC. 68. Special Accounting Rules. – The Commission shall have the authority to make, amend, and rescind such accounting rules and regulations as may be necessary to carry out the provisions of this Code, including rules and regulations governing registration statements and prospectuses for various classes of securities and issuers, and defining accounting, technical and trade terms used in this Code. Among other things, the Commission may prescribe the form or forms in which required information shall be set forth, the items or details to be shown in the balance sheet and income statement, and the methods to be followed in the preparation of accounts, appraisal or valuation of assets and liabilities, determination of depreciation and depletion, differentiation of recurring and non-recurring income, differentiation of investment and operating income, and in the preparation, where the Commission deems it necessary or desirable, of consolidated balance sheets or income accounts of any person directly or indirectly controlling or controlled by the issuer, or any person under direct or indirect common control with, the issuer.

SEC. 72. Rules and Regulations; Effectivity. – 72.1. This Code shall be self-executory. To effect the provisions and purposes of this Code, the Commission may issue, amend, and rescind such rules and regulations and orders necessary or appropriate, including rules and regulations defining accounting, technical, and trade terms used in this Code, and prescribing the form or forms in which information required in registration statements, applications, and reports to the Commission shall be set forth. For purposes of its rules or regulations, the Commission may classify persons, securities, and other matters within its jurisdiction, prescribe different requirements for different classes of persons, securities, or matters, and by rule or order, conditionally or unconditionally exempt any person, security, or transaction, or class or classes of persons, securities or transactions, from any or all provisions of this Code.

72.2. The Commission shall promulgate rules and regulations providing for reporting, disclosure and the prevention of fraudulent, deceptive or manipulative practices in connection with the purchase by an issuer, by tender offer or otherwise, of and equity security of a class issued by it that satisfies the requirements of Subsection 17.2. Such rules and regulations may require such issuer to provide holders of equity securities of such dates with such information relating to the reasons for such purchase, the source of funds, the number of shares to be purchased, the price to be paid for such securities, the method of purchase and such additional information as the Commission deems necessary or appropriate in the public interest or for the protection of investors, or which the Commission deems to be material to a
determination by holders whether such security should be sold.

SEC. 73. Penalties. – Any person who violates any of the provisions of this Code, or the rules and regulations promulgated by the Commission under authority thereof, or any person who, in a registration statement filed under this Code, makes any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading, shall, upon conviction, suffer a fine of not less than Fifty thousand pesos (P50,000.00) nor more than Five million pesos (P5,000,000.00) or imprisonment of not less than seven (7) years nor more than twenty-one (21) years, or both in the discretion of the court. If the offender is a corporation, partnership or association or other juridical entity, the penalty may in the discretion of the court be imposed upon such juridical entity and upon the officer or officers of the corporation, partnership, association or entity responsible for the violation, and if such officer is an alien, he shall in addition to the penalties prescribed, be deported without further proceedings after service of sentence.
# Appendix 14. Illustrative Financial Management Scorecard

<table>
<thead>
<tr>
<th>Area</th>
<th>This Year</th>
<th>Last Year</th>
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</thead>
<tbody>
<tr>
<td><strong>Accounting Standards and Practices</strong></td>
<td></td>
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<tr>
<td>(i) Degree to which accounting standards comply with IASC promulgations (comparison of accounting standards to IASs – points deducted for every deviation or omission)</td>
<td>...%</td>
<td>...%</td>
</tr>
<tr>
<td>(ii) Degree to which financial reports comply with accounting standards (review of a sample of financial reports)</td>
<td>...%</td>
<td>...%</td>
</tr>
<tr>
<td>(iii) International and regional perceptions of Philippine accounting standards and practices (survey)</td>
<td>...%</td>
<td>...%</td>
</tr>
<tr>
<td>(iv) Domestic perceptions of Philippine accounting standards and practices (survey)</td>
<td>...%</td>
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<tr>
<td><strong>Score for this area</strong></td>
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<tr>
<td><strong>Auditing Standards and Practices</strong></td>
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<tr>
<td>(i) Degree to which auditing standards and guidelines comply with IAPC promulgations (comparison of auditing standards to ISAs – points deducted for every deviation or omission)</td>
<td>...%</td>
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</tr>
<tr>
<td>(ii) Auditor Appointment and Termination (comparison of laws and regulations with best practice)</td>
<td>...%</td>
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</tr>
<tr>
<td>(iii) Auditor Independence (comparison with best practice)</td>
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<tr>
<td>(iv) Auditor Reporting (comparison with best practice)</td>
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<tr>
<td>(v) Auditor Liability (comparison with best practice)</td>
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<tr>
<td><strong>Score for this area</strong></td>
<td>...%</td>
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<tr>
<td><strong>Professional Arrangements</strong></td>
<td></td>
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</tr>
<tr>
<td>(i) International standing of CPA license (comparison of requirements to international guidelines)</td>
<td>...%</td>
<td>...%</td>
</tr>
<tr>
<td>(ii) Regional standing of CPA license (comparison of requirements to regional requirements)</td>
<td>...%</td>
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</tr>
<tr>
<td>(iii) International perceptions of the Philippine CPA (survey)</td>
<td>...%</td>
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<tr>
<td>(iv) National perceptions of the Philippine CPA (survey)</td>
<td>...%</td>
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</tbody>
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### APPENDIXES

<table>
<thead>
<tr>
<th>Area</th>
<th>This Year</th>
<th>Last Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>(v) Quality control arrangements (comparison of arrangements to international guidelines)</td>
<td>...%</td>
<td>...%</td>
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<tr>
<td>Score for this area</td>
<td>...%</td>
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</tr>
<tr>
<td>Education and Training</td>
<td></td>
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</tr>
<tr>
<td>(i) Overall passing rate of CPAs</td>
<td>...%</td>
<td>...%</td>
</tr>
<tr>
<td>(ii) Educational inequality (passing rates of examinees from bottom 100 academies/passing rates of examinees from top 50 academies)</td>
<td>...%</td>
<td>...%</td>
</tr>
<tr>
<td>Score for this area</td>
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<td>...%</td>
</tr>
<tr>
<td>Overall Score</td>
<td>...%</td>
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</tr>
</tbody>
</table>

CPA = certified public accountant; IAS = International Accounting Standard; IAPC = International Auditing Practices Committee; IASC = International Accounting Standards Committee; ISA = International Standards on Auditing.