

**REVISED RULES AND REGULATIONS FOR  
THE PROFESSIONAL REGULATORY BOARD OF  
ACCOUNTANCY CONDUCT OF OVERSIGHT INTO THE QUALITY OF  
AUDITS OF FINANCIAL STATEMENTS AND OPERATIONS  
OF CPA PRACTITIONERS**

Pursuant to Sec. 9 (g) of Republic Act No. 9298, otherwise known as the “Philippine Accountancy Act of 2004,” the Professional Regulatory Board of Accountancy hereby promulgates with the approval of the Professional Regulation Commission, the following Rules and Regulations to carry out effectively the provisions of Sec. (9) (g) relative to the adoption of best practices for the enhancement and maintenance of high professional, ethical and auditing standards; and Sec 9 (h) of the said Act relative to the “conduct of oversight into the quality of audits of financial statements.”

**Rule I**

**TITLE AND DEFINITIONS**

**Section 1.** These Rules and Regulations shall be known and cited as “Rules and Regulations for the QAR Program.”

**Section 2.** *Definition of Terms.* Unless otherwise expressly provided , the following terms shall be understood to mean:

- a. *BoA* – refers to the Professional Regulatory Board of Accountancy.
- b. *CPA Practitioners* –the collective term used to designate an individual CPA or Partnership of CPAs engaged in the practice of public accountancy in the Philippines.
- c. *Quality Assurance Review (QAR)* - a study, appraisal or review by an independent QAR Office (QARO) of the quality of audit of financial statements and the adoption of best practices through a review of the quality control measures instituted by CPA Practitioners to ascertain compliance with prescribed professional, ethical and technical standards of public practice.

**Rule II**

**COUNCIL FOR ACCREDITATION AND QUALITY CONTROL OF PRACTICING CPAs**

**Section 3.** The BoA shall coordinate with and may seek assistance in the proper implementation of the Quality Assurance Review Program from the Council for Accreditation and Quality Control of Practicing CPAs (“Council”) created under the Memorandum of Agreement dated 12 August 2009, executed by the Board, Securities and Exchange Commission (“SEC), the Bangko Sentral ng Pilipinas (BSP), and the Insurance Commission (IC).

The Memorandum of Agreement recognizes that -

“The BoA under R.A. No. 9298, supervises the accreditation, licensure and practice of accountancy in the Philippines and conducts an oversight into the quality of audits of financial statements through the review of the quality control measures instituted by auditors in order to ensure compliance with the accountancy and auditing standards and practices.”

Paragraph 9 of the said Agreement further provides that –

“The SEC, BOA, BSP and IC shall form a “Council for Accreditation and Quality Control of Practicing CPAs.” The Council shall discuss policy issues on quality control standards of accredited external auditors. It shall likewise oversee the implementation of the MOA and possible improvement and/or enhancement of the synchronized accreditation/selection procedures and requirements. The Council shall on a periodic basis report to the Financial Sector Forum on the foregoing matters.”

### **QUALITY ASSURANCE REVIEW OFFICE**

**Section 4.** The BoA shall organize the Quality Assurance Review Office (QARO) which shall have independence in the conduct of its operation.

**Section 5.** An Executive Committee is hereby created to be composed of the incumbent Chairman and Vice Chairman of the BoA and a member to be selected by the Chairman from any of the incumbent members of the BoA.. The Executive Committee shall have the full power and authority to set policies and to supervise the operation of QARO. The duties and responsibilities of the Executive Committee are as follows:

- a. To set policies that will ensure effective implementation of the Quality Assurance Review (QAR)Program ;
- b. To maintain independence in the operations of the QARO;
- c. To monitor the quality of QAR review conducted by the QARO;
- d. To discuss with the Council how to avoid the overlapping of the various quality review programs;
- e. To establish a compliance framework to be used by the QARO in carrying its duties;
- f. To appoint the Chief Inspector and Chief of Administration of the QARO, including other personnel thereof;
- g. To recommend to the BoA a rolling three year QAR plan;
- h. To oversee the implementation of the approved QAR plan through the QARO;
- i. To obtain technical advice on the subject of quality assurance when needed and appropriate;
- j. To evaluate the reports and recommendations of the Chief Inspector;
- k. To submit to the Board the findings and actions taken by the QARO relative to the QAR plan. and,
- l. To submit the annual report of its accomplishment to the BoA.

**Section 6.** ***Chairmanship and Term of Office of the Executive Committee Members.*** The Chairman of the Committee shall be from the BoA’s appointees. The term of office of the Chairman and members shall be co-terminus with their respective term in in the BoA unless replaced earlier by the BoA but in no

case shall be more than three (3) years. The Chairman and members of the Executive Committee should not be in active practice of public accountancy during his term in the Executive Committee.

**Section 7. QARO Personnel.** The QARO's personnel shall be composed of the Chief Inspector, the Chief of Administration, and such other employees that may be necessary to carry out effectively the functions of the QARO. They shall be appointed by the Executive Committee.

**Section 8. Term of Office of QARO Personnel.** The QARO Chief Inspector, the Chief of Administration and other staff and employees shall enjoy security of tenure and may be removed only for the just and authorized causes recognized under the labor and other laws. The reviewers and other employees shall be appointed by the Executive Committee.

**Section 9. Qualifications of the Chief Inspector of the QARO.** The appointee to the Chief Inspector of the QARO must have the following qualifications:

- a. Must have reached at least the level of senior manager of an accounting firm that has handled publicity listed companies as audit clients;
- b. Must be independent from the CPA practitioners that will be covered by the QAR Program;
- c. Must have at least ten (10) years of experience in the practice of public accountancy;
- d. Must be of good moral character and has a current license as a CPA;
- e. Must not have been found guilty of violating professional, ethical and regulatory auditing standards; and,
- f. Must have good oral and written communication skills, being especially adept at report writing.

**Section 10. Duties and Responsibilities Chief Inspector of the QARO.**

- a. Exercises administrative supervision and control over the QARO;
- b. Assists the Executive Committee in determining the Quality Assurance policies;
- c. Selects the CPA Practitioners to be reviewed for the year, in accordance with the three-year QAR plan;
- d. Approves the QAR plan for each CPA practitioner selected for review, which must set forth the nature, extent and timing of such review;
- e. Reviews and approves the QAR reports;
- f. Assists the Executive Committee in preparing the Annual Report;
- g. Recommends to the Executive Committee the appointment and/or termination from service of QARO personnel as well as appropriate disciplinary action to be taken;
- h. Supervises the Training Program for Quality Assurance Reviewers;
- i. Supervises the Accreditation process for the Quality Assurance Reviewers; and,
- j. Performs such duties and functions as the Executive Committee may assign.

**Section 11. Qualifications of the Chief Administration of the QARO.** The appointee to the Chief Administration of the QARO must have the following qualifications:

- a. Must have adequate experience in administration and human resource development ;
- b. Must be independent from the CPA practitioners that will be covered by the QAR Program;
- c. Must have experience in the practice of public accountancy;
- d. Must be of good moral character and has current license as a CPA;

- e. Must not have been found guilty of violating professional, ethical and regulatory auditing standards; and,
- f. Must have good oral and written communication skills, being especially adept at report writing.

**Section 12. *Duties and Responsibilities of the Chief of Administration.*** The Chief of Administration is responsible for the non-technical aspect of the QAR program and shall report to the Chief Inspector. The main duties of the Chief Administration include:

- a. Serves as the administrative officer of the QARO;
- b. Supervises the registration of CPA Practitioners in their respective categories;
- c. Supervises the collection of registration fees;
- d. Supervises the preparation of the regular financial reports of the QARO;
- e. Supervises the administrative aspect of training of QARO personnel;
- f. Supervises communications to all practitioners; and
- g. Performs such functions as may from to time be assigned by the Chief Inspector.

**Section 13. *Quality Assurance Reviewers.*** The QARO shall enter into Contracts of Service with Quality Assurance Reviewers who shall be responsible for the field work of a QAR assignment. They shall be screened and selected by the Executive Committee upon recommendation of the Chief Inspector. They shall have the following qualifications:

- a. Must have at least five (5) years of experience in the statutory or regulatory audit of companies, or teaching financial accounting and practical auditing in a CHED-recognized educational institution or in the corporate financial reporting or internal auditing function;
- b. Must not have been terminated from the employment as an auditor due to incompetence or below average rating;
- c. Must be of good moral character and has a current license as a CPA.
- d. Must not have been found guilty of violating any professional, ethical and regulatory auditing standards;
- e. Must have good oral and written communication skills, being especially adept at report writing;
- f. Must have completed the training program for Quality Assurance Reviewers: and
- g. Must have completed the accreditation process that shall be implemented by the QARO.

The training program for the Quality Assurance Reviewer and the accreditation process shall be recommended by the Executive Committee to the BoA for its approval.

### **Rule III COVERAGE AND REGISTRATION IN THE QAR PROGRAM**

**Section 14. *Coverage of the QAR Program.*** The QAR program covers all CPAs in the public accounting sectors, whether as an individual practitioner or a partnership.

The covered engagements by this program shall be those audit engagements where engagement letters were signed by the client on or after sixty (60) days after the approval of these rules and regulations.

**Section 15. Mandatory Coverage.** Registered CPA practitioners shall likewise maintain compliance and continuous registration with the QAR Program, otherwise it shall be a ground for the imposition of fines or the suspension or revocation of the BOA accreditation of the CPA practitioner. The CPA Practitioner’s registration category should be indicated in the BOA certificate of accreditation.

CPA Practitioners with clients that are either publicly-listed or that are imbued with public interest as enumerated under paragraph (d)(1)(2) of Section 17, shall register with the QARO within 30 days from the date of effectivity of these Rules and shall be subject to QAR program during the first (3) three years of the implementation these Rules and Regulations. After the lapse of said 3 year period, CPA practitioner with clients that are not publicly listed or imbued with public interest shall register with QARO and shall be subject to the QAR program.

Failure to comply with the prescribed registration and to submit the QAR process shall be a ground for the non-renewal of the CPA practitioner’s registration with BoA.

CPA practitioners who are not covered under the first three (3) year mandatory coverage have the option to register and submit themselves to a QAR in which case, shall be subject to the guidelines on the conduct thereof.

**Section 16. Registration in the QAR Program.** Registration with the QARO shall be required for all CPA Practitioners after the lapse of the three year period.

**Section 17. Guidelines for QAR Program.** The QAR Program is prescribed following the basic minimum guidelines and internationally accepted norms as indicated below:

- a. The QAR Program shall be conducted by the QARO which shall be under the oversight responsibility of the Board:
- b. The registration of CPA Public Practitioner with the QAR Program is valid for one year, and shall be renewed annually for as long as CPA Practitioner issues audit report on the financial statements of their clients within the first two months of each calendar year;
- c. CPA Practitioners should be registered in accordance with the following risk categories:

**Category A – CPA Practitioners handling clients that use the full PFRS.** These would cover CPA practitioners auditing public-interest entities (listed and non-listed but with public accountability). This category is further broken down into six sub categories:

Category	CPA Practitioners with
A (1)	50 or more listed companies as clients
A (2)	Over 25 but less than 50 listed companies as clients
A (3)	1 to 25 listed companies as clients
A (4)	50 or more non listed companies as clients
A (5)	Over 25 but less than 50 non listed companies as clients
A (6)	1 to 25 non listed companies as clients

**Category B – CPA Practitioners handling clients that use the full PFRS for Small and Medium-sized enterprises.** This category is further broken down into four sub-categories:

Category	CPA Practitioners with
B (1)	over 150 clients
B (2)	76 to 150 clients
B (3)	26 to 75 clients
B (4)	1 to 25 clients

d. The classification of audit clients for the QAR Program are discussed below:

I. Public-interest Entities (Entities with Public Accountability) Using Full PFRS include:

1. Publicly-listed Entities -

a. Entities which have issued a class of securities listed for trading on an Exchange

2. Other Public-interest Entities but not listed -

a. Entities which have sold a class of their securities pursuant to a registration under Section 12 of the Securities Regulation Code;

b. Entities with assets of at least P50 million and having 200 or more holders each holding at least 100 shares of a class of its equity securities as of the first day of the issuers' fiscal year;

c. Entities which are in the process of filing their financial statements for the purpose of issuing any class of instruments in a public market;

d. Entities that hold assets in a fiduciary capacity for a broad of outsiders such as bank (all types of banks), an investment house, a finance company, an insurance company, a securities broker/dealer, a mutual fund and a pre-need company or entities with secondary license;

e. Public utility entities;

f. Entities which are economically significant. These are entities whose total assets exceed P350M whose total liabilities exceed P250M. Total assets and total liabilities are based on the entity's annual financial statements and on consolidated totals, if the entity presents consolidated financial statements. An entity that is subsidiary of a parent that is considered to have public accountability is similarly considered to have public accountability.

g. Entities covered by the accreditation requirement of the SECC, BSP and IC

II. Entities using PFRS for SMEs

a. Entities with total assets between P3 million and P350 million or total liabilities of between P3 million and P250 million;

b. Entities not required to file financial statements under SRC Rule 68.1;

c. Entities not in the process of issuing any class of instruments in a public market.

d. Entities which are not holders of secondary license issued by a regulatory agency, such as a bank/dealer a mutual fund and a pre-need company; and

e. Entities which are not public utility companies.

- e. The following registration rules for the QAR Program for the CPA Practitioner are prescribed:
- 1) A CPA Practitioner will register in only one category (highest sub-category);
  - 2) Change in registration category from Category A to Category B or vice versa should be done within the year of change;
  - 3) Change in registration sub-category due to the change in the number of clients should be done upon renewal of registration within the first two months of each calendar year;
  - 4) All applications for registration must include information as to the number of clients, classified as to public-interest entities using full IFRS and small and medium-sized entities using IFRS for SMEs, and any other information that may be prescribed by the Board. The application shall be under oath and signed by the Individual CPA, or the managing director or head of the Firm of partnership, provided that the signatory shall be liable administratively or criminally for any misrepresentations made under oath;
  - 5) Any other requirement that will be prescribed by the Executive Committee.

**Section 18. Annual registration fee.**

The annual registration fee to be paid by the CPA Practitioner shall be based on the following:

- a. Nature of the Practice. The nature of a practice can be described by the clientele that the CPA Practitioners has and their risks exposure to the public for any audit failure that might occur. For example, practitioners who have listed companies among their clients have a much higher risk exposure to the public and will require more extensive and highly technical review and therefore incurs a higher annual fee;
- b. Extent of Quality Assurance Work to be applied. The extent of quality assurance work to be applied to a Practitioner will be determined by the Risk Category that the he falls into. For instance, a practitioner that has publicly listed companies among its clientele falls within category A (1) which has the highest risk exposure. The practitioner would get a full scope quality assurance inspection as provided for by the QAR methodology adopted and therefore incurs a higher annual fee.
- c. Timing or frequency of the QAR. Timing or frequency of the QAR will be determined by either the risk or size profile of a CPA Practitioner, or both. The Practitioner with the highest risk profile would be subjected to more frequent QARs and therefore incurs a higher annual fee.

Based on the factors specified, the annual registration fee to be paid by the CPA Practitioner shall not exceed the following.

<b>Category</b>	<b>Sub-Category</b>	<b>Annual Charge</b>	<b>Rationale for Charge</b>
<b>Category A</b> <i>Auditors of Public-Interest Entities Using FULL PFRS</i>	A (1) 50 or more listed companies	Php 350,000	High risk, annual QAR, Full scope QAR, Large-sized firm
	A (2) Over 25 but less than 50 listed companies	250,000	High risk, annual QAR, Full scope QAR, Large-sized firm
	A (3) 1 to 25 listed companies	200,000	High risk, annual QAR, Full scope QAR, Large-sized firm
	A (4) 50 or more not listed companies	150,000	Less risky, QAR, every two years, Full scope, medium sized firm
	A (5) Over 25 but less than 50 not listed companies	100,000	Less risky, QAR, every two years, Full scope, Smaller sized firm
	A (6) 1 to 25 not listed companies	50,000	Less risky, QAR, every two years, Full scope, Smaller sized firm
<b>Category B</b> <i>Auditors of Companies Using PFRS for SMEs</i>	B(1) With over 200 clients	40,000	Minimal risk, QAR every three years, Scope for SMEs, Largest of this category
	B (2) With 101 to 200 clients	25,000	Minimal risk, QAR every three years, Scope for SMEs, Smaller than previous category
	B (3) With 51 to 100 clients	15,000	Minimal risk, QAR every three years,



			Scope for SMEs, Smaller than previous category
	B (4) With 1 to 50 clients	8,000	Minimal risk, QAR every three years, Scope for SMEs, Smaller than previous category

*Provided,* that the annual registration fees may be adjusted in succeeding years depending on the funding requirements of the QAR Program.

*Provided further,* that the revision in the registration fees shall be approved by the BoA upon recommendation by the Executive Committee;

*Provided further,* that the Rationale for the Charges should not in any way be construed as limiting the scope of QAR that may be conducted by the QARO.

*Provided further,* that accumulated and unutilized funds to date that were previously collected shall be determined and fully accounted for. These funds can only be used for the intended purpose and cannot be refunded as per decision of the Office of the Solicitor General. The fund balance shall be considered in the establishment of the annual fee schedule to be prescribed moving forward.

*Furthermore,* since the QAR Program benefits ultimately the clients of the CPA Practitioner, said clients should also contribute to cost of implementation of the QAR. Hence, the collection of fees from clients will be pursued by proposing in Congress the appropriate legislation that will be prescribe said measure.

Full transparency and accountability shall govern the collection and utilization of the fees. The funds/fees from QAR shall be subject to annual audit by an independent CPA.

**Section 19. Confidentiality of Information.** The information obtained, work/reports of the QARO are to be considered strictly confidential and are not to be divulged except only for purposes of determining whether or not to impose sanctions for violation of these Rules and Regulations or upon order of a court of competent jurisdiction.

**Section 20. Publication of and conduct of briefings on the general observations to improve the quality of work of CPA Practitioners**

Since the objective of the QAR is to assist in the enhancement of the practice of public accountancy, the Executive Committee shall publish a detailed report containing general observations and recommendations that will help in improving the quality of work of Practitioners. This report shall be based on the reports from the QAR and shall be published annually or any other period that the Board may prescribe.

The QARO shall regularly conduct briefings to update the CPA Practitioners on measures to improve the public accountancy practice.

#### **Rule IV PENALTIES AND SANCTIONS**

**Section 21. General Penalties and Sanctions.** The general penalties and sanctions for violation of any provisions of these Rules and Regulations shall be in accordance with the penalty provided for under Section 36 of Republic Act No. 9298, the Philippine Accountancy Act 2004 which provides that, "Any person who shall violate any of the provisions of this Act or any of its implementing rules and regulations as promulgated by the Board subject to the approval of the Commission, shall, upon conviction, be punished by a fine of not less than Fifty Thousand pesos (P50,000.00) or by imprisonment for a period not exceeding two (2) years or both ," without prejudice to the imposition of administrative penalties of warning, admonition, fine, suspension or cancellation of the professional license as a CPA.

**Section 22. Administrative Penalties and Sanctions on violations pertaining to registration .** For failure of a CPA Practitioner to register with the QARO, the CPA Practitioner shall be imposed the administrative penalties for violation of the provisions of these Rules and Regulations as follows:

Category A1 to A3

- 1) First offense, P1,500.00 per day of delay;
- 2) Second offense, P3,000.00 per day of delay;
- 3) Third offense, P9,000.00 per day of delay plus recommendation for criminal prosecution.

Category A4 to A6

- 1) First offense, P1,000.00 per day of delay;
- 2) Second offense, P2,000.00 per day of delay;
- 3) Third offense, P6,000.00 per day of delay plus recommendation for criminal prosecution.

Category B1 to B2

- 1) First offense, P500.00 per day of delay;
- 2) Second offense, P1,000.00 per day of delay;
- 3) Third offense, P2,000.00 per day of delay plus recommendation for criminal prosecution.

Category B3 to B4

- 1) First offense, P200.00 per day of delay;
- 2) Second offense, P500.00 per day of delay;
- 3) Third offense, P1,000.00 per day of delay plus recommendation for criminal prosecution.

Failure to submit the prescribed documents and to settle the penalty shall constitute a sufficient ground for the suspension and revocation of accreditation after due notice and hearing.

It is to be understood that the first to third offenses must have been committed within and period of four (4) years computed from the time of the imposition of the penalty for the first offense.

**Section 23. Schedule of penalties and sanctions on the findings of discrepancies or non-compliance to standards**

The Executive Committee shall recommend to the BoA the Schedule of penalties and sanctions that shall be imposed on CPA Practitioners who may be determined to have not met the standards of the QAR based on the reports and findings of the Quality Assurance Reviewers. The BoA shall recommend to the Professional Regulation Commission for the approval of the Schedule of penalties and sanctions

**Rule V  
MISCELLANEOUS PROVISIONS**

**Section 24. *Separability clause***

If any provision or part thereof of these rules and regulations shall be declared invalid or unlawful, such judgment shall not affect, invalidate or impair any part hereof, but shall merely be confined to the provision or part directly involved in the judgment.

**Section 25. *Repealing clause***

Any rules, regulations and all other issuances inconsistent with the provisions of these Rules and Regulations are hereby repealed or modified accordingly.

**Section 24. *Effectivity***

These Rules and Regulations shall take effect within fifteen (15) days following its publication in the Official Gazette or in any major newspaper of general circulation.