

# Audit Requirements and Compliance for Micro and Small Enterprises

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While mainstream media and social networking sites are bursting with news on government and non-government personalities lobbying for lowering of taxes in the Philippines, one portion of the tax updates that is not tackled by these personalities is the requirements for submission of audited financial statements of Micro and Small Enterprises (MSEs).

Based on the figures provided by the Philippines Statistic Authority, the number of micro enterprises in the Philippines is at 851,756 and small enterprises is at 87,283, which means that 939,039 out of the total registered business in the Philippines of 946,988 (which includes large enterprises of 4,063) are considered MSEs. With these figures, shouldn't we also consider MSEs reporting requirements in the updates of the tax laws.

With the sheer numbers of these MSEs, how many of them would be required to have their financial statements audited by Independent Certified Public Accountants (CPAs)? First let's find out who requires this type of report. Currently there are four main regulatory bodies that requires audited financial statements (AFS). namely the Bureau of Internal Revenue (BIR), the Securities and Exchange Commissions (SEC), the Insurance Commission, and the Bangko Sentral ng Pilipinas.

Out of the four regulatory bodies, two of these have a huge impact in terms of submission of the AFS by MSEs, namely, the BIR and SEC. Under the National Internal Revenue Code of the, Section 232 (A) provides that "Corporations, companies, partnerships or persons whose gross quarterly sales, earnings, receipts or output exceed One hundred fifty thousand pesos (P150,000), shall have their books of accounts audited and examined yearly by Independent Certified Public Accountants"; (B) "The term 'Independent Certified Public Accountant,' as used in the preceding paragraph, means an accountant who possesses the independence as defined in the rules and regulations of the Board of Accountancy promulgated pursuant to Presidential Decree No. 692, otherwise known as the Revised Accountancy Law".

The SEC requires that the the AFS will be submitted to the SEC in the following instances:

- a. If a domestic corporation that is a stock corporation with paid-up capital of PhP50,000.00 or more; and non-stock corporations with annual gross receipts of PhP100,000.00 or more, or total assets of PhP50,000,000.00 or more;
- b. If a foreign corporation that is branch office of a stock foreign corporation with total assets of PhP500,000.00 or more; branch office of a non-stock foreign corporation with total assets of PhP500,000.00 or more; a representative office of a foreign corporation with total assets of PhP500,000.00 or more; regional operating headquarters of multinational companies with assigned capital of PhP50,000.00 or more; and regional headquarters of multinational companies with total assets of PhP50,000.00 or more.

For a CPA to issue an unqualified opinion for entities that will require AFS, the financial statements should be in compliance with the Philippine Financial Reporting Standards for Small and Medium

Enterprises (PFRS for SMEs). Since the proposed framework for Micro Enterprises are yet to be released, Micro Enterprises must also adhere to the PFRS for SMEs in preparing their respective financial statements.

An audit/examination of the financial statements submitted by the MSEs would entail auditors to spend time and resources to ensure that the financial statements taken as whole would be in compliance with PFRS for SMEs. Such execution of the audit of the CPA would be costly to business that are earning at least Php600,000 in gross receipts per annum. But in an event that the MSEs fails to have its books audited by a CPA, the BIR may fine the MSEs starting from Php3,000 to Php25,000 (depending on the gross receipts per year). The SEC may also fine MSEs in an amount that ranges from Php10,000 to Php30,000.

With these rules, it seems that majority, if not all, the MSEs would be required to submit AFS to both BIR and SEC. Between the two regulatory bodies, BIR would have a more broader reach for MSEs since these are individual businesses that are subject to the BIR jurisdiction. Thus, any updates on the tax scales should include updates on the reporting requirements of MSEs that will ensure that those business may not have any difficulties in complying with current reporting requirements of the BIR. Such measures as increasing the minimum gross receipts for business that would be required to have their books be audited by a CPA would be a great relief to all MSEs.

Not only are we rationalizing the submission of reporting requirements for MSEs, but we are also protecting the quality of audit work that the CPA should conduct (just imagining how much time the auditor would need to ensure to finish the audit of FS for MSEs). If legislators and the government officials really care for the welfare of the country, they should include this measure that will relieve the MSEs in an updates or revision of the tax laws or measures. The MSEs contribute a lot of jobs and may provide enough tax to the coffers of the government provided that tax measures and compliance would be streamlined and made easy for them to follow.

If we don't act now, we may lose the growth of these MSEs in our country.



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*This column accepts contributions from accountants, especially articles that are of interest to the accountancy profession, in particular, and to the business community, in general. These can be e-mailed to [boa.secretariat@gmail.com](mailto:boa.secretariat@gmail.com)*