

The Need for Certification of Compilation Services

Third of three parts

By Alfredo J. Non

There is a historical note in the development of Accounting practice in the Philippines that is relevant to this subject on certificate of compilation services. I started in the CPA profession in 1968 after my graduation from college at the University of the East. I was involved in the public practice sector rendering attest services (external audit work) for clients of SGV. At that time, most of the external auditors were involved in the preparation of their client's financial statements and notes. In most cases, it was mainly due to the delays in the client's year-end closing including the preparation of financial statements and notes which affect the external auditors' timetable and deadline for submission of the financial statement package to the BIR and SEC. There was a conflict - True. But nobody cared. It was a very convenient arrangement where the external auditors meet their deadlines, are able to perform additional service to the clients for which additional fees were charged.

As we moved on, we saw a significant development in the accounting profession and, as the local practice become international in character, the accounting practice became more and more complicated. Then also, the business community started experiencing financial irregularities or fraud (the earliest I remember in the Philippines was the Dewey Dee and the Harry Stonehill cases). The implementation of the floating exchange rate system in mid 1970s brought about new issues in accounting and reporting. The Accounting Standards Council came into being in 1981 followed by a wave of new and more complicated developments. Then, other massive and unexpected financial irregularities appeared in the landscape with most of it being blamed on the external auditors. The question always was – Why did the auditors not discover it?

This brought about the first major change in dealing with public awareness on the responsibility of the external auditors. The public was told that the financial statements and the Notes thereto are the responsibility of the management and the external auditors are only responsible for the audit report attached to the financial statements. This resulted in two significant developments:

1. The introduction of the Management Responsibility Statement signed by two responsible members of management which is required to accompany every financial statements and Notes thereto. This Statement emphasizes that management is responsible for the preparation of the financial statements and Notes thereto.
2. The amendment in the wording of the auditors' report to emphasize the delineation of responsibilities between the management and the auditors. So, from the usual two paragraph standard auditors' report, it has evolved into one with a standard five paragraphs containing the following:
 - a. Opinion on the identified financial statements.
 - b. Basis of opinion
 - c. Key audit matters.
 - d. Responsibilities of management and those charged with governance for the financial statements.
 - e. Auditor's responsibility for the audit of the financial statements.

These changes, plus the adoption of an International Code of Ethics made it clear that the previous practice of external auditors also preparing financial statements and notes for the client will no longer be tolerated.

It was also clear that if management is responsible for the preparation of the financial statements and notes thereto, they should also be equipped with the same knowledge, competence and proficiency with respect to accounting principles and standards. They do not have to be CPAs themselves but, they can employ qualified CPAs or contract third party CPAs to do the required compliance services.

Thus, the need for the certification of CPAs involved in compilation services.

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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

