Republic of the Philippines
Department of Trade and Industry
Securities and Exchange Commission
SEC Bldg. EDSA, Greenhills, Mandaluyong City

SEC MEMORANDUM CIRCULAR NO. 16
SERIES OF 2009

To: **ALL CORPORATIONS REQUIRED TO SUBMIT ANNUAL AUDITED FINANCIAL STATEMENTS**

Subject: **REMINDERS ON THE PREPARATION AND AUDIT OF ANNUAL FINANCIAL STATEMENTS**

To address the findings of the Commission on the annual audited financial statements relative to the preparation and audit of annual financial statements, the Commission, in its Resolution dated December 3, 2009, resolved to issue these reminders.

I. Corporations Covered

Under existing rules and regulations, the following corporations are required to submit annual audited financial statements:

(1) Stock corporations with paid-up capital stock each of P50,000.00 or more[1];

(2) Non-stock corporations with total assets each of P500,000.00 or more, or with gross annual receipts of P100,000.00 or more;

(3) Branch offices of stock foreign corporations with assigned capital each of P50,000.00 or more[2];

(4) Branch offices of non-stock corporations with total assets each of P500,000.00 or more[2];

(5) Representative offices of foreign corporations with total assets each of P500,000.00 or more[2].

[1] Sections 75 and 141 of the Corporation Code, and SRC Rule 68.
[2] SEC Memorandum Circular No. 15, Series of 2006

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II. Preparation of Financial Statements

1. The management of the company is responsible for the preparation and presentation of financial statements in accordance with the applicable financial reporting framework, including all disclosures and their supporting documentation.

2. In relation to the audit of the said financial statements, the management should provide its auditor with the following:

   a. Complete set of financial statements consisting of the (1) Statement of Financial Position; (2) Either a single statement of comprehensive income, or a separate income statements and a separate statement of comprehensive income; (3) Statement of changes in equity; (4) Statement of cash flows; (5) Notes including a summary of significant accounting policies; (6) If applicable, schedules and reconciliation forming part of the financial statements required under the existing rules of the Commission.

   b. All information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements. These include schedules, computations, projections, reconciliations, reports, analyses and other financial information;

   c. Any additional information that the auditor may request from management and when appropriate, from those tasked to perform governance; and

   d. Unrestricted access to records and personnel of the entity from whom the auditor deems it necessary to obtain audit evidence.

3. **The company should neither allow nor require its external auditor to prepare its financial statements and/or any of its supporting documents. The external auditor's duty is to conduct an independent examination of the company's financial statements and supporting documents pursuant to the prescribed auditing standards and practices.**

4. The Chairman of the Board, Chief Executive Officer and Chief Finance Officer should all sign the Statement of Management's Responsibility (SMR) as prescribed by SRC Rule 68. If required by the company's by-laws, persons holding equivalent position as that of the aforementioned signatories should sign the statement. Failure of any of the prescribed signatory to sign the SMR constitutes a material deficiency of the financial statements.[3]

[3] SEC Memorandum Circular No. 8, 2009 (Scale of Fines for Non-Compliance with the Financial Reporting Requirements).

5. In the case of branch or representative offices of foreign corporations, the SMR shall be signed by the local manager who is in charge of the operations within the Philippines. The third paragraph of the SMR may be deleted since the Philippine Branch does not have any local Board of Directors or stockholders.[4]

6. The requirements on the preparation of the financial statements shall be complied with together with the prescribed form and contents under SRC Rule 68, the applicable financial reporting framework and other relevant regulations.

III. Engagement of External Auditors

1. The company through its Board of Directors or Audit Committee, if applicable, should conduct **due diligence** in confirming the personal identification and professional qualifications of the practitioner[5] whose services it will engage as external auditor. The company should not enter into an engagement contract with a person who merely acts as agent of a practitioner.

2. Prior to engagement, the company should require the practitioner to present a copy of his/her professional license from the Professional Regulation Commission (PRC) and the Certificate of Accreditation issued to him/her by the Board of Accountancy (BOA) as sole practitioner or to the auditing firm if he/she is a partner thereof.

3. The company should confirm the authenticity of the BOA Certificate of Accreditation by checking the latest list of accredited practitioners issued by the BOA.

4. If the BOA Certificate of Accreditation does not indicate any expiration date, its validity shall be counted three (3) years from the year of its issuance, e.g., an accreditation issued on December 1, 2007 will expire on December 31, 2009.

5. For companies covered by the Commission's Guidelines on Accreditation of External Auditors[6], the following shall be observed prior to the engagement of an external auditor:

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[4] Section 2(b)(iv) of SRC Rule 68.
[5] A certified public accountant engaged in public practice.
[6] SEC Memorandum Circular No. 13, 2009.

a. In addition to the requirements under paragraphs 1 to 5 above, the company shall require the presentation of the Commission's Certificate of Accreditation issued to the practitioner and its auditing firm, if applicable. The level of accreditation (Group A to D) indicated in the said certificate should be higher (Group A being the highest) or equivalent to the company's classification under the Guidelines;

b. The authenticity of the said certificate should be verified against the list of accreditated auditors and firms posted in the website of the Commission at www.sec.gov.ph, or through telephone inquiry at the Office of the General Accountant of the Commission.

6. The company through its Board of Directors or Audit Committee should closely monitor whether its external auditor is personally conducting the audit or directly supervising his/her audit staff. For this purpose, preliminary meetings with the management and the exit conference should be attended to personally by the external auditor or by the handling partner, in case of a firm.

7. The engagement contract with an external auditor should be in writing.

8. A complete documentation of the foregoing requirements should be retained by the company. The external auditor's file with the company should include a copy of his/her PRC license, BOA Accreditation Certificate, Commission's Certificate of Accreditation (if applicable), duly signed engagement contract and minutes of conference with the auditors, among others.

Finally, the concerned companies are reminded that failure to comply with any of the foregoing requirements shall make them liable for the fines provided for in SEC Memorandum Circular No. 8, Series of 2009 or any amendments thereto.

Signed this 10th day of December 2009, Mandaluyong City, Philippines.

For the Commission:

FE B. BARIN
Chairperson