NOTES AND COMMENTS

BOA RESOLUTION 3-2016 REQUIRING THE SUBMISSION OF CERTIFICATE BY THE RESPONSIBLE CERTIFIED PUBLIC ACCOUNTANTS ON THE COMPILATION SERVICES FOR THE PREPARATION OF FINANCIAL STATEMENTS AND NOTES THERETO AND THE SUBSEQUENT AMENDATORY RESOLUTIONS TO THIS EFFECT

INTRODUCTION

This paper is presented and submitted to the Regulatory Board of Accountancy (RBOA) in pursuit of its request for general stakeholders’ consultation/dialogue on May 12, 2017 to be held at the Professional Regulation Commission (PRC).

This is an initiative for and in behalf of the Philippine Institute of Certified Public Accountants (PICPA) as the accredited professional organization (APO) by the undersigned in his capacity as Senior Member of the Board of Directors and Vice President for Education.

The comments and notes are designed to provide deeper inquiry as inputs to a more strategic, critical, practical, and consultative way of crafting improvements and betterments to the questioned Resolution so that the mutual interests of the various stakeholders are taken account of.

The comments are presented in talking captions to provide a clearer exposition and justification of the significant and critical issues. We make the caveat that these are informed opinions and judgments coming as they do from personal and professional experiences and interactions with many people in the ground. Contrary views and opinions are thus welcome to improve the discourse and the dialogue for mutual benefits.

GENERAL COMMENTS

We find the Resolution of the RBOA an exercise of its prerogative to regulate the profession in a just and equitable way especially its objectives.

1. Good Objectives

Generally, the objectives of the Resolution as detailed in the “WHEREAS” clauses are concededly good and are amply supported by legal rules, accounting promulgations and the Code of Ethics. At best, the resolution seeks to eliminate or minimize the instances of unprofessional and unethical conduct where the external auditors are themselves preparing the financial statements of their clients and rendering an audit opinion thereof.
Anecdotal experiences and incidents point to the existence of such a practice for selfish
gain by certain CPAs betraying the professional ethical calling.

2. Additional Service Engagements

With this resolution, the CPA’s in the public practice has found a “cash cow” service apart
from their external audit engagements. Anecdotal stories from practitioners relate to this
tangible benefit from the resolution.

However, there are a number of contentious issues that make the Resolution unpalatable and
impractical for all or certain groups of stakeholders. We believe the problem lies on the lack of
or flawed strategic concept, lack of or insufficiency of the implementation process including
monitoring and reporting, and ineffective consultation with the various concerned stakeholders.

1. Insufficient Systemic Analysis

The Resolution while admittedly has good objectives, suffers from the lack or insufficient
assessment of the nature and dynamic interplay of stakeholder interests.

For example, there is obviously lack of consideration for the nature and structure of
business in the country where more than 90% of establishments are small and medium
scale, their business, products, markets, financial resources, competitors, legal, financial
reporting and statutory requirements are much different from big business organizations.
That is why the presence of small and single CPA practitioners proliferates causing a
bargaining power on engagements particularly fee structures.

Moreover, these small and medium companies make it more practical to hire non-
licensed CPA as accountants or bookkeepers because of resource constraints. The
resolution forces them to incur additional expense for compilation services. This is the
beef of business groups particularly by the Philippine Chamber of Commerce and Industry
(PCCI).

2. Inadequate Dialogue with Various Stakeholders

There is a perception that this Resolution is peremptorily promulgated and unilateral
without sufficient dialogue with the various stakeholders to craft a win-win solution. True,
there were communications and meetings called but the results of such activities failed
to provide an adequate basis for the promulgated Resolution taking account of
stakeholders’ inputs. As a result, the Resolution has been questioned left and right
prompting the RBOA and PRC to issue amendatory resolution and deferments. It makes
the objective observer to think that the Resolution was crafted and issued without sound
and studied staff work.
3. **Lack or Insufficient Process and Resources to Implement**

The Resolution is a new regulation; the various stakeholders were not prepared or many were caught flat-footed particularly small and medium scale business owners, CPA single and partnership public practitioners. It is a classic case of a change management situation where there is a modus operandi to make it more palatable and to lessen major resistance. In such a case, there must be a committed “buy-in” of the new changes by the parties through effective communication and engagement. It cannot be made to be shoved through the throats something that the stakeholders are not prepared and ready to accept. A calibrated way to implement a new change is more highly acceptable to do.

RBOA does not have the organizational, human, and financial resource to monitor the implementation of this Resolution so it requires the public practitioners to become its monitor and reporter. From the ethical, contractual, and business practice standpoint, this is highly contrary because the public practitioners would now be the “eye and ear” of the RBOA and unwittingly makes the public practitioners “snitches” or whistle-blowers against their clients’ interests. This is a totally unacceptable requirement that is contrary to human nature, sanctity of contracts, ethics and business sense.

The RBOA has retreated on this issue by issuing a resolution deferring the implementation of the said provision.

4. **Superfluous Certificate of Compilation Services**

There are two proposed Certificates of Compilation Services: one prepared and submitted by an employed CPA as accounting officer of the company and the other prepared and submitted by a CPA practitioner.

With respect to the employed CPA certifying compilation for his employer, it could be a superfluous requirement because company officers and management are required to prepare an overall Statement of Management Responsibility (SMR) which is all-encompassing to include accounting and finance as part of their corporate stewardship function. Of what added value in quality and compliance of standards would this add on when Management itself already assumes total responsibility for the financial statements, subsuming in effect the veracity of the financial statements prepared by the accountant in accord with accounting standards?

But if this is indeed a utile requirement, cannot it be incorporated in a sentence or two in the SMR, thus making the total responsibility of Management concrete and complete over all the operations of the company? Thus, if something goes wrong with the financial statements, the major responsibility is Management, not the employed accountant.
If the intent of the certificate is to be able to account for CPAs in the commerce and industry and to get them accredited, the certificate may not be the most practical way that will not be a regulatory overkill, bureaucratic and inefficient.

As to the certificate of compilation by the practitioner, it certainly has a place in the questioned resolution in order to avoid the “self-review” threat that the Resolution seeks to avoid. But it should only be a part of the entire package at enhancing integrity and ethics in the accountancy profession, not the end-all and the be-all.

But a question arises as to the degree of due diligence and care to be exercised in the compilation services. The pro-forma certificate says “SINCE A COMPILATION ENGAGEMENT IS NOT AN ASSURANCE ENGAGEMENT, WE ARE NOT REQUIRED TO VERIFY THE ACCURACY OR COMPLETENESS OF THE INFORMATION YOU PROVIDED TO US TO COMPILE THESE FINANCIAL STATEMENTS.” But the paragraph before this already stated the rhetorical caveat: “THESE FINANCIAL STATEMENTS AND THE ACCURACY AND COMPLETENESS OF THE INFORMATION USED TO COMPILE THEM ARE YOUR RESPONSIBILITY.” Significantly, this statement is totally subsumed under the SMR if one were to parse a pro-forma SMR which is the subject of our recommendation below.

There is a concern with this statement because it would imply that the practitioner would just accept “hook, line and sinker” what the company gives him to compile without exercising some thinking and acting robotically. This is contrary to the training of CPA’s to have always an inquiring attitude and to seek clarification and explanation, as needed and necessary, for things that they notice to be unusual or irregular. It is not in keeping with professional competence standards and attitudes.

OVERALL COMMENTS AND SUGGESTIONS

This Resolution has become highly contentious its implementation has been stymied by questions and concerns of various stakeholders. There is a need to look at it with a new and fresh perspective to enable a crafting of a more strategic, systemic, and practical regulation for the mutual benefits of the stakeholders. Regulation should not solely be “regulation per se”. It must also be developmental, encouraging, uplifting, and inspiring so that it becomes a multi-sector engagement that multiples the value added.

The following suggestions are proposed:

1. We suggest to the RBOA to rescind this resolution and all its amendatory and deferment resolutions and start anew by doing the following:
- Form a Technical Working Group (TWG) composed of the concerned stakeholders the work of which is to gather, analyze, evaluate, and summarize all the inputs into a cohesive program; disseminate and conduct hearings and dialogue with concerned stakeholders and allow time for them to sink their teeth into the proposed resolution before finalization. It may take time but this is how to effectively initiate change without massive resistance and achieve effective results.

2. In any Resolution, RBOA must consider where the profession is and where the professionals are. Resolutions that are of “one-size-fits-all” may not be effective and palatable to various stakeholders where their interests are dissimilar from the rest. For example, our business structure is more than 90% small and medium scale. CPAs are found in the academe, public practice, commerce and industry, and government. They all have different perspectives, needs, and requirements. We must be sensitive to them. We however concede that there are regulations that must be peremptorily promulgated because they non-negotiable but still dialogue would not be a waste. All others may be implemented through effective dialogue and engagements.

3. Finally, a study on the capacity and capability of non-licensed accountants employed by small and medium scale companies as their accountants as a possible substitute where they can issue compilation certificate is suggested. Empirically, many non-CPA accountants working as company accountants are by no means inferior in competence and integrity, sans only passing the licensure. There must be a counter-intuitive way by which they can be harnessed so that business owners will not incur additional costs for practitioner compilers. A specially studied and designed accreditation process of this type might be an interesting prospect.

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