

**FINAL DRAFT OF AMENDMENTS TO RULES AND REGULATIONS  
ON THE QAR PROGRAM**

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*Revised as of November 27, 2009*

**PROFESSIONAL REGULATORY BOARD OF ACCOUNTANCY**

Resolution No. \_\_\_\_\_

Series of 2009

**CERTAIN REVISIONS OF THE RULES AND REGULATIONS  
FOR THE IMPLEMENTATION BY THE  
PROFESSIONAL REGULATORY BOARD OF ACCOUNTANCY  
OF THE QUALITY ASSURANCE REVIEW PROGRAM**

**WHEREAS**, after deliberation and consideration of the concerns and issues raised by various stakeholders which include other regulatory agencies, on the Rules and Regulations for the Implementation by the Professional Regulatory Board of Accountancy of the Quality Assurance Review Program, the Board deemed it necessary to revise said Rules.

**WHEREFORE**, the Board resolves as it hereby resolves to revise the “Rules and Regulations for the Implementation by the Professional Regulatory Board of Accountancy of the Quality Assurance Review Program,” marked as Annex “A” and made part hereof, which should be considered as part of the rules and regulations for the practice of accountancy in the Philippines.

This Resolution and its Annex “A”, as revised, shall take effect after fifteen (15) days following their publication in the Official Gazette or in a major daily newspaper of general circulation in the Philippines, whichever is earlier.

Done in the City of Manila, this \_\_\_\_\_ day of \_\_\_\_\_, 2009.

**EUGENE T. MATEO**  
Chairman

**MA. ELENITA B. CABRERA**  
Vice Chairman

**FROILAN G. AMPIL**  
Member

**RUFO R. MENDOZA**  
Member

**LUCILA C. TARRIELA**  
Member

Attested:

**CARLOS G. ALMELOR**  
Secretary, Professional Regulatory Boards

Approved:

**NICOLAS P. LAPEÑA, JR.**  
Chairman

**RUTH RAÑA-PADILLA**  
Commissioner

**NILO L. ROSAS**  
Commissioner

**AMENDED RULES AND REGULATIONS  
FOR THE IMPLEMENTATION BY THE  
PROFESSIONAL REGULATORY BOARD OF ACCOUNTANCY  
OF THE QUALITY ASSURANCE REVIEW PROGRAM**

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, subject to the approval of the Professional Regulation Commission, the following Rules and Regulations to carry out effectively the provisions of 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 a QAR Program.”

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

- a. *Accredited Professional Organization (APO)* – the recognized professional organization of certified public accountants (CPAs) duly recognized by both the Professional Regulation Commission (PRC) and the Board. The APO ensures that its member-CPA practitioners implement and maintain quality of audit. The present APO for CPAs is the Philippine Institute of Certified Public Accountants (PICPA).
- b. *Board* – refers to the Professional Regulatory Board of Accountancy.
- c. *CPA Practitioners* – the collective term used to denominate an individual CPA, Firm or Partnership of CPAs engaged in the practice of public accountancy in the Philippines.
- d. *Quality Assurance Review (QAR)* – a study, appraisal or review by an independent QAR Department organized by the APO, of the quality of audit of financial statements through a review of the quality control measures instituted by member-CPA Practitioners engaged in the practice of public accountancy 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 Board 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 created under the Memorandum of Agreement dated 12 August 2009, executed by the Board, Securities and Exchange Commission, the Bangko Sentral ng Pilipinas and the Insurance Commission.

### QUALITY ASSURANCE REVIEW DEPARTMENT

**Section 4.** *The Quality Assurance Review Department (QARD).* The APO shall organize a QARD which shall have independence in the conduct of its operation.

**Section 5.** The Board shall create an Executive Committee which shall have full power and authority to set policies and to supervise the operation of QARD. The Committee shall be composed of two (2) members from the Board and one (1) from the APO, as appointed by their respective governing bodies. The appointee shall possess high degree of competence and objectivity taking into account the duties and responsibilities of the Committee, as follows:

- a. To set policies that will ensure effective implementation of the quality assurance review program;
- b. To maintain independence of the QARD;
- c. Through its QARD, to monitor the quality of audits;
- d. To hire the Chief Inspector and Chief of Administration of QARD including other personnel thereof;
- e. To recommend to the Board the Quality Assurance Review (QAR) plan for the year, which may be approved by the Board without referral to the Commission;
- f. To implement the approved QAR plan for the year through the QARD;
- g. To obtain independent technical advice on the subject of quality assurance when needed and appropriate;
- h. To receive and evaluate the reports and recommendations of the Chief Inspector, and to resolve whether or not to issue a Certificate of Quality Assurance Compliance to the member-CPA practitioner;
- i. Submit regularly to the Board a list of erring member-CPA practitioners including the findings and actions taken by the QARD. The Committee shall likewise regularly submit to the Board policies that it adopted and implementing issues that it settled for the oversight review of the Board. It shall also report to the Board any form of interference by the APO on its policy making or on QARD's operation;
- j. To issue through the Board, annual reports for the benefit of the general public.

**Section 6.** *Chairmanship and Term of Office of the Executive Committee Members.* The Chairman of the Committee shall be from the Board's appointees. The Chairman and the Members shall have a term of three (3) years unless replaced earlier by the Board or APO.

**Section 7. *QARD Personnel.*** The QARD's personnel shall be composed of a Head (the Chief Inspector), the Chief of Administration, Assistants to the Chiefs, Staff Auditors and such other employees that may be necessary to carry out effectively the functions of the QARD. They shall be appointed by the Executive Committee.

**Section 8. *Term of Office of QARD Personnel.*** The QARD Personnel shall be engaged under a contract of service.

**Section 9. *Qualifications of the Chief Inspector of the QARD.*** To be eligible for appointment as Chief Inspector of the QARD, a person must have the following qualifications:

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

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

- a. Exercises administrative supervision and control over the QARD and over its personnel as its head;
- b. Assists the Executive Committee in determining Quality Assurance policies;
- c. Prepares the QAR Review Plan for each year for submission to the Executive Committee for consideration;
- d. Selects the CPA Practitioners to be reviewed for the year, in accordance with the annual plan;
- e. Approves the specific inspection plan for each practitioner selected for review, which must set forth the nature, extent and timing of such work;
- f. Reviews and approves the individual inspection reports;
- g. Has the final authority to approve all inspection reports;
- h. Assists the Executive Committee to prepare its Annual Report;
- i. Recommends to the Executive Committee the appointment and termination from service of subordinate QARD personnel as well as appropriate disciplinary action to be taken;
- j. Provides for technical training of inspection personnel;
- k. Performs such duties and functions as the Executive Committee may assign.

**Section 11. *Qualifications of the Chief of Administration, QARD.*** To be eligible for appointment as Chief of Administration, a person must have the following qualifications:

- a. Must have appropriate educational qualification;
- b. Must have at least five (5) years work experience in human resource management at supervisory capacity;
- c. Must be independent from the practitioners or firms that will be covered by the QAR Program;
- d. Must be of good moral character and has a current license as a CPA;
- e. Must not have been found guilty of violating any professional, ethical and regulatory auditing standards;

- f. Must have good oral and written communication skills, being especially adept at report writing.

**Section 12. *Duties of the Chief of Administration.*** The Chief of Administration is responsible for the non-technical aspect of the QAR program. The main duties of the Chief of Administration include:

- a. Serves as the administrative officer of the QARD;
- 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 QARD;
- e. Supervises the administrative aspect of training of QARD personnel;
- f. Supervises communications to all practitioners;
- g. Performs such functions as may from time to time be assigned by the Chief Inspector.

**Section 13. *Assistants for the Chief Inspector and Chief of Administration.*** The Executive Committee shall hire technical assistants upon the recommendation of the Chief Inspector, who have audit experience to assist him/her carry out the inspection work plan for the year approved by the Board. They shall carry out their inspection work in accordance with the prescribed methodology. They will report directly to the Chief Inspector.

The Executive Committee shall hire clerical assistants upon the recommendation of the Chief Administration, to help him/her carry out the administrative tasks of QARD. These assistants shall report directly to the Chief of Administration.

**Section 14. *Staff Auditors.*** The APO, through its Executive Committee, shall enter into Contracts of Service with auditors who shall be responsible for the field work of a QAR assignment. They shall be appointed by the Executive Committee upon the recommendation of the Chief Inspector. They shall have the following qualifications:

- a. Must have at least five (5) years 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 be of good moral character and has a current license as a CPA;
- c. Must not have been terminated from employment as an auditor due to incompetence or below average rating;
- d. Must not have been found guilty of violating any professional, ethical and regulatory auditing standards; and
- e. Must have good oral and written communication skills, being especially adept at report writing.

### **Rule III**

#### **SCOPE OF COVERAGE, ENROLLMENT IN THE QAR PROGRAM**

**Section 15. *Coverage of the QAR Program.*** The QAR Program covers all CPAs in the public accounting sector, whether as an individual practitioner, a firm or a partnership.

**Section 16. *Mandatory Coverage.*** Upon effectivity of this Resolution, all accredited CPAs in public practice shall enroll in the prescribed category in the QAR Program within thirty (30) days. Enrollment in the QAR Program is a pre-requisite for initial as well as renewal of accreditation as a CPA in public practice by the Board of Accountancy. Enrolled 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 accreditation of the Board as provided under Section 22 of these Rules . The CPA Practitioner’s registration category should be stated in the certificate of accreditation.

**Section 17. *Creation of the Quality Assurance Review Department (QARD).*** The APO shall provide the necessary infrastructure, facilities and mechanisms by which the QARD can operate efficiently and independently. The APO shall collect from the CPA practitioners their allocated share in the expenses relative to the conduct of the QAR Program apart from the membership fee that the practitioners pay to the APO. For this purpose, the APO shall create a separate and distinct fund account to which all its collections for the QAR Program shall be deposited. The QARD shall keep books of accounts of its funds, expenses and amounts disbursed from the fund, and make a monthly report thereof to the APO and the Commission through the Board. All the said collection shall be used exclusively to implement the QAR Program activities.

**Section 18. *Enrollment in the QAR Program.*** Enrollment in the duly accredited QAR Program through the QARD shall be considered by the Board as compliance with the requirement of mandatory coverage.

**Section 19. *Guidelines for QAR Program.*** The Board shall accredit the QAR Program, if it contains the following basic minimum guidelines and it conforms with internationally accepted norms for maintaining a QAR Program:

- a. The QAR Program shall be conducted by the QARD which shall be under the oversight responsibility of the Board;
- b. The registration with the QAR Program should be good only for one year, and may be renewed annually for as long as the CPA Practitioner issues audit reports on the financial statements of their clients, and has been issued by the QARD a Certificate of Quality Assurance Compliance. Said Certificate with proof of active registration with the QAR Program shall be submitted by the CPA Practitioners upon application for renewal of accreditation to the Board.
- c. CPA Practitioners should be registered in accordance with the following risk categories:

**Category A – registration for CPA Practitioners handling clients that use the full IFRSs or their Philippine equivalents.** These would cover CPA practitioners auditing public-interest entities (listed and not-listed but with public accountability). This category is further broken down into four 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 – registration for CPA Practitioners handling clients that use the IFRS or their Philippine equivalents for Small and Medium-sized enterprises.** This category will be further broken down into four such sub categories:

Category	CPA Practitioners with
B (1)	over 200 clients
B (2)	101 to 200 clients
B (3)	51 to 100 clients
B (4)	1 to 50 clients

- d. Registration rules. The following registration rules must be observed:
- 1) A CPA Practitioner can only register in one category (highest sub-category) division;
  - 2) CPA Practitioner registered under Category B cannot audit companies that use the full IFRS or their Philippine equivalent, unless he upgrades his registration to Category A;
  - 3) A CPA Practitioner registered under any of the sub-categories of Category A must upgrade his registration if he exceeds the number of clients under the specific sub-category under which he is registered;
  - 4) A CPA Practitioner registered under any of the sub-categories of Category B must upgrade his registration if he exceeds the number of audit reports under the specific sub-category under which he is registered;
  - 5) All application for initial as well as renewal of annual 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 under oath to determine the public practitioner’s appropriate category. The application should be 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;
  - 6) The Registration Rules may provide for penalties provided they do not exceed the penalties provided for under these Rules and Regulations, provided further that, the Board is not precluded from imposing the appropriate penalties under the Philippine Accountancy Act of 2004.
- e. Allocation of expenses among CPA Practitioners. The reimbursement of costs relative to the QAR Program from the CPA practitioners should consider the following:
- 1) The criteria to be used in the determination of the cost allocation should include as a minimum requirement the following parameters:
    - a) Nature of the Practice. The nature of a practice can be described by the clientele that the CPA Practitioners has and their risk exposure to the public for any audit failure that

- 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. This practitioner would get a full scope quality assurance inspection as provided for by the QAR methodology adopted and therefore he bears a higher annual charge.
- 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 an annual QAR. Practitioners subjected to more frequent QARs bear a higher annual charge.

For instance, Practitioners who are targeted for annual audits are the larger ones who have more than one partner. For a multi-partnered firm if it would not be possible to do a QAR for all the partners in one year, the succeeding annual QAR would cover the work of partners not reviewed in previous years.

The frequency of QAR will generally be as follows:

For Category A auditors (Auditors of Public-Interest Entities using Full IFRS)

A1, A2 and A3 auditors: Annual and full scope QAR  
A4, A5 and A6 auditors: Biennial and full scope QAR

For Category B auditors (Auditors of Entities using the IFRS for SMEs)

B1, B2, B3 & B4 auditors: Triennial QAR and scope for SMEs

- 2) The annual registration fees representing the estimated share in the QAR Program costs that will be collected in the first year of the implementation of these rules should 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 IFRS</i>	A (1) 50 or more listed companies as clients	Php 350,000	High risk, annual QAR, Full scope QAR, Large-sized firm
	A (2) Over 25 but less than 50 listed companies as clients	250,000	High risk, annual QAR, Full scope QAR, Large-sized firm
	A (3) 1 to 25 listed companies as clients	200,000	High risk, annual QAR, Full scope QAR, Large-sized firm
	A (4) 50 or more not listed companies as clients	150,000	Less risky, QAR every two years, Full scope, Medium sized firm
	A (5) Over 25 but less than 50 not listed companies as clients	100,000	Less risky, QAR every two years, Full scope, Smaller sized firm
	A (6) 1 to 25 not listed companies as clients	50,000	Less risky, QAR every two years, Full scope, Smaller sized firm
<b>Category B</b> <i>Auditors of Companies Using the IFRS for SMEs</i>	B (1) With over 200 clients	Php 30,000	Minimal risk, QAR every three years, Scope for SME, Largest of this category
	B (2) With 101 to 200 clients	20,000	Minimal risk, QAR every three years, Scope for SME, Smaller than previous category
	B (3) With 51 to 100 clients	8,000	Minimal risk, QAR every three years, Scope for SME, Smaller than previous category
	B (4) With 1 to 50 clients	4,000	Minimal risk, QAR every three years, Scope for SME, Smaller than previous category

*Provided*, that the registration fees may be adjusted in the succeeding years depending on the practitioners' share in the expected expenses of the QAR Program. *Provided further*, that the Rationale for the Charges should not in any be construed as limiting the scope of QAR that may be conducted by the QARD.

**Section 20. Confidentiality of Information, Findings and Specific Reports.** The information obtained, work and reports of the QARD are to be considered strictly confidential and are not to be divulged except only for purposes of determination whether or not to impose sanctions for violation of these Rules and Regulations or upon order of a court of competent jurisdiction.

## **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 of 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.** After the requisite due process, the Board may impose the following administrative penalties for violation of the provisions of these Rules and Regulations:

- a. For failure to comply with the requirements of these Rules or for any violation of any provisions thereof, imposition on the APO of the following fines:
  - 1) First offense, P1,000.00 per day of violation or non-compliance;
  - 2) Second offense, P2,000.00 per day of violation or non-compliance;
  - 3) Third offense, P4,000.00 per day of violation or non-compliance;

Continuing violation and/or failure to settle the fines despite notice and hearing, shall be a sufficient ground for the suspension and eventual rescission by the Board of the recognition it granted to the APO.

- b. For failure to enroll in the QAR Program, denial of the application for initial or renewal accreditation of the CPA Practitioners;
- c. For failure to timely submit proof of active registration and annual Certificate of Quality Assurance Compliance from the QARD of the APO, imposition of the following fines:

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, P 500.00 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.

- d. 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.

## **Rule V**

### **MISCELLANEOUS PROVISIONS**

**Section 23. *Separability Clause.*** If, for any reason any section or provision of these Rules and Regulations or the application of such sections or provisions to any person or circumstance is declared unconstitutional or null and void, no other section or provision of these Rules and Regulations shall be affected thereby.

**Section 24. *Effectivity Clause.*** These Rules and Regulations duly approved by the Professional Regulation Commission shall take effect after fifteen (15) days following its publications in the Official Gazette or in a major daily newspaper of general circulation in the Philippines, whichever is earlier.