

Reports on the Observance of Standards and Codes for accounting and auditing

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There are international standards in the measure of financial standing. Observance of these financial standards is vital for international financial stability in a world of integrated capital markets. The international standards also offer a benchmark that can help in identifying vulnerabilities and developments. It is for these reasons that the International Monetary Fund (IMF) and the World Bank (WB) embarked on a joint project called “*Reports on the Observance of Standards and Codes (ROSCs)*”. It seeks to help member countries to strengthen their financial systems **by improving compliance with internationally recognized standard and codes**. In ROSCs, the IMF and WB prepare “summary assessments” of the observance by nations of specified or selected standards applicable to the private and financial sector. These assessments are then compiled as “modules” in “country binders”, thus constituting the ROSCs. The modules are classified into specific sectors such as banking supervision, securities market regulation, deposits insurance, and others. The World Bank is designated to monitor three areas covered by ROSCs: a) corporate governance, b) accounting and auditing, and c) insolvency regimes and creditor rights.

Under the ROSC program, the WB initiated a program to help member countries to implement international accounting and auditing standards with the objective to strengthen the financial reporting regime. Specifically, it seeks to measure national compliance with international standards. Thus, it will help countries to build their accounting and auditing capacity. It assists countries in capacity-building, development of policymaking, and transparency of corporate financial reporting. The WB has published reports on over 100 countries on “ROSC Accounting and Auditing (ROSC/AA)”.

Specifically, the ROSC/AA seeks compliance with the International Financial Reporting Standards (IFRSs) and the International Standard on Auditing (ISA). The subsequent ROSC AA assessment also provides for country support to implement a Country Action Plan (CAC) for accounting and auditing reforms.

The WB and IMF offer ROSC reviews upon the invitation of a country. This review uses a diagnostic tool to gather pertinent information. Reports are then prepared after the assessment and review.

In the Philippines, the first ROSC review was conducted in 2001. Recommendations to improve accounting and auditing practices were discussed. Among the proposals in the CAC was the strengthening of the Board of Accountancy's capacity to discharge its duties in the regulation of the accountancy profession. This included proposed amendments to the 1975 Revised Accountancy Law and the PRC Modernization Act of 2000. Another proposal was the full adoption of international standards in accounting and auditing. Specifically, the full adoption of the IASs and ISAs without modifications. On the part of the Insurance Commission, it issued Circular Letter No. 1-2005 wherein external auditors of insurance companies were required to submit the quality control procedures upon the filing of their application for accreditation.

In 2006, a second ROSC review was again conducted. It noted major improvements with the adoption of the Philippine Accountancy Act of 2004. It also led to the creation of the Quality Assurance Review Council (QARC) which held its first organizational meeting on September 3, 2009. The Insurance Commission later became a member of the Council for Accreditation and Quality Control of Practicing CPAs under the Financial Sector Forum (FSF).

A third ROSC review is being undertaken for 2016-2017 with the specific objectives to: a) expand lenders, investors and consumers' access to reliable financial information; b) enhance the quality of statutory audit and the credibility of corporate financial reporting; and c) alleviate the administrative burden imposed on SMEs by the need to produce audited accounts in accordance with sophisticated requirements. A Steering Committee will be formed by the Philippine government to liaise with the World Bank in this ROSC review. On October 28, 2016, The Insurance Commission prepared the Insurance Module (Financial Sector) for the World Bank. The module is actually a series of questions to be answered by the insurance regulator to provide a better understanding of the financial reporting requirements for insurance companies. The questionnaire covered the following fields: a) overview of the insurance sector; b) insurance regulation; c) financial reporting requirements for insurance companies; d) statutory audit and other forms of independent assurance; e) audit committees; f) filing and publication of financial statements; g) monitoring and enforcement; and h) corporate governance.

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