



<b>Circular Letter (CL) No.</b>	<b>2024-03</b>
<b>Date:</b>	<b>29 January 2024</b>
<b>Supersedes:</b>	CL No.: 2020-61; CL No.: 2019-39; and CL No.: 2019-68

### CIRCULAR LETTER

**TO :** ALL EXTERNAL AUDITORS, AUDITING FIRMS AND INSURANCE COMMISSION-REGULATED ENTITIES

**SUBJECT :** REVISED FRAMEWORK ON THE ACCREDITATION OF EXTERNAL AUDITORS

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**WHEREAS**, the Insurance Commissioner under Section 437 of Republic Act (“RA”) No. 10607 (“Amended Insurance Code”) may issue such rulings, instructions, circulars, orders and decisions as may be deemed necessary to secure enforcement of RA No. 10607, to ensure efficient regulation of the insurance industry in accordance with global practices and to protect the insuring public;

**WHEREAS**, the last paragraph of Section 347 of the Amended Insurance Code provides that no External Auditor shall be engaged by supervised persons or entities unless it has been issued an accreditation certificate by the Commissioner. The accreditation certificate shall be valid until December 31 of the third (3rd) year from issuance unless it is revoked or suspended. The Commissioner shall issue rules and regulations to govern the accreditation of the External Auditor and revocation or suspension of the accreditation.

**WHEREAS**, Section 6 (k), (l) and (n) of the RA No. 9829 (“Pre-need Code”) provides that the Insurance Commission (“IC”) has the power to:

- (k) Prepare, approve, amend or repeal rules, regulations, orders, and circulars and issue opinions and provide guidance on, and supervise compliance with, such rules, regulations, orders and circulars;
- (l) Formulate policies and recommendations on issues concerning the pre-need industry, including proposed legislations; and

(n) Exercise such other powers as may be provided by law as well as those which may be implied from, or which are necessary or incidental to carry out the express powers granted the Commission to achieve the objectives and purposes of the law.

**WHEREAS**, Section 4 of Executive Order (“EO”) No. 192 series of 2015, provides authority to the IC to formulate rules and regulations to regulate the Health Maintenance Organizations (“HMOs”) and its related services;

**WHEREAS**, the IC finds the need to provide revised guidelines to reflect the transfer of the processing of the accreditation from the Securities Exchange Commission (“SEC”) to IC;

**NOW THEREFORE**, pursuant to the power vested in this Commission under Section 437 of the Amended Insurance Code, Section 6 of the Pre-need Code, and Section 4 of EO No. 192, the IC revised the rules and regulations that shall govern the accreditation and delisting of External Auditors of IC-regulated entities (“ICREs”) as follows:

## **SECTION 1: POLICY STATEMENT**

The IC is issuing the revised guidelines on the accreditation of the External Auditors to ensure that the External Auditors consistently adhere to audit in compliance with quality control standards and understand the operations and risk exposures of ICREs, including their IC-regulated subsidiaries and affiliates engaged in allied and related services.

## **SECTION 2: APPOINTMENT EXTERNAL AUDITORS OF ICREs**

- 2.1. ICREs shall engage the services of an External Auditor included in the IC List of Accredited External Auditors. In this respect, an Accredited External Auditor shall be classified into categories and shall extend her/his services to ICREs belonging to the same category or from categories lower than the category of the concerned External Auditor as provided in Section 3 of this CL.
- 2.2. The IC shall periodically evaluate the performance of the ICREs’ External Auditors through an assessment of the quality of the ICRE’s Audited Financial Statements (“AFS”) and the supplemental report requirements to be issued by the IC. The results of assessment shall serve as the basis for their continuing inclusion in the IC List of Accredited External Auditors.
- 2.3. The Accredited External Auditor of the ICRE shall be rotated in accordance with the relevant provisions of the Code of Ethics for Professional Accountants in the Philippines and the implementing rules and regulations as adopted and issued by the Philippine Board of Accountancy (“BOA”) at the time of audit.
- 2.4. The accreditation of the External Auditor shall be valid for three (3) covered audit years or for a shorter period under a conditional approval, unless suspended or

delisted. It is the responsibility of the accredited External Auditors to maintain the validity of their Professional Regulatory Commission ("PRC")/BOA accreditation.

### **SECTION 3: COVERAGE**

3.1. Accredited External Auditors shall be classified in the following categories and shall extend their services to ICREs belonging to the same category or from categories lower than the category of the concerned Accredited External Auditor:

1. **Group A**

- a. Insurance companies;
- b. Professional Reinsurance companies;
- c. Regular Mutual Benefit Associations ("MBAs");
- d. Pre-need companies; and
- e. HMOs

2. **Group B**

- a. Trust for charitable uses; and
- b. Insurance, reinsurance, pre-need and HMO brokers

3. **Group C**

- a. Microinsurance MBAs; and
- b. General Agents

### **SECTION 4: ADOPTION OF THE CODE OF ETHICS**

All Accredited External Auditors shall observe and comply with the current requirements of the Code of Ethics for Professional Accountants in the Philippines as adopted by the BOA.

### **SECTION 5: QUALIFICATION REQUIREMENTS**

An Accredited External Auditor must have the following qualifications at the time of application:

1. Accredited and licensed by the PRC/BOA;
2. Has at least five (5) years of experience in external audit as a sole practitioner or as a manager, lead partner, or its equivalent (as previously/currently employed in the auditing firm); and
3. Track record:
  - a. For Group A, the applicant must have audited at least five (5) ICREs under Group A as a sole practitioner or lead partner of the auditing firm, or at least ten (10) ICREs under Group B, or ten (10) corporate clients

with total assets of at least Fifty Million Pesos (₱50 Million) each. Provided further, there are no material findings on the quality of her/his audit work within the last three (3) years.

- b. For Group B, the applicant must have audited at least three (3) ICREs under Group B as a sole practitioner or lead partner of the auditing firm, or at least five (5) ICREs under Group C, or five (5) corporate clients with total assets of at least Twenty Million Pesos (₱20 Million) each. Provided further, there are no material findings on the quality of his/ her audit work within the last three (3) years.
- c. For Group C, the applicant must have audited at least three (3) ICREs under Group C as a sole practitioner or lead partner of the auditing firm, or at least five (5) corporate clients with total assets of at least Five Million Pesos (₱5 Million) each. Provided further, there are no material findings on the quality of his/ her audit work within the last three (3) years.

## **SECTION 6: INITIAL APPLICATION AND RENEWAL**

6.1 The following supporting documents should be included in the online application:

1. Copy of a valid PRC/BOA Certificate of Accreditation or PRC Accreditation under Philippine bilateral agreements, with attachment listing the name of qualified partner/s of the firm (as applicable);
2. Notarized list of clients audited during the 3-year period of being accredited as External Auditor by the IC. Such list shall likewise indicate the findings noted by the IC and other regulatory agencies on said AFS including the actions taken thereon by the External Auditor;
3. In case of renewal application, a copy of the expired accreditation certification; and
4. Proof of payment of the accreditation fee prescribed in IC CL No. 2014-15.

A step-by-step process for the application is attached in this Circular as **Annex "A."**

- 6.2 The Accredited External Auditor shall apply for renewal at least (3) months before the expiration of her/his accreditation.
- 6.3 An Accredited External Auditor may apply for a higher category within the validity period of her/his current accreditation. Such shall be considered as an initial application.

## **SECTION 7: AUDIT ENGAGEMENT**

- 7.1. The ICRE shall ensure that the scope of external audit work appropriately covers areas relevant to the ICRE's operations, risk exposures, and regulatory compliance requirements. These shall include, but not limited, to the following:

1. Review of the adoption of applicable reporting framework as well as the assessment of the accuracy, adequacy, and reliability of accounting records and financial reports;
  2. Assessment of the propriety and adequacy of the required and supplemental disclosures or reports in the financial statements as required by the IC;
  3. Assessment of the adequacy and effectiveness of internal controls and risk management policies;
  4. Assessment of the adequacy of the ICRE's net-worth or risk-based capital requirements by the IC; and
  5. Evaluation of the quality of corporate governance.
- 7.2. The engagement contract of ICREs with the Accredited External Auditor shall include, at a minimum, the following provisions:
1. That the ICRE shall be responsible for keeping the Accredited External Auditor fully informed of existing and subsequent changes to prudential regulatory and statutory requirements of the IC and that both parties shall comply with the said requirements;
  2. That the required and supplemental disclosures of information and reports, such as those enumerated in Section 8 of this CL, by the Accredited External Auditor to the IC shall not constitute a breach of confidentiality on the part of the Accredited External Auditor nor shall it be ground for civil, criminal, or disciplinary proceedings against the Accredited External Auditor;
  3. That the Accredited External Auditor shall be allowed read-only access to the IC's examination report on the particular ICRE and that the Accredited External Auditor shall treat the contents of the examination report appropriately and confidentially; and
  4. That the ICRE and the Accredited External Auditor shall comply with all the requirements under this CL.
- 7.3. The engagement contract shall be made available to the IC upon request.

## **SECTION 8: REPORTORIAL REQUIREMENTS**

- 8.1 The Accredited External Auditor shall directly report to the IC within fifteen (15) calendar days upon discovery of any adverse matter affecting the financial condition of the ICRE, such as, but not limited to the following cases:
1. Any material<sup>1</sup> findings involving fraud or error;
  2. Losses or potential losses the aggregate of which amounts to at least ten percent (10%) of the consolidated assets of the ICRE;
  3. Significant doubt as to the ability of the ICRE to continue as a going concern based on IC prudential requirements;

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<sup>1</sup>CL 2022-17, "Guidelines on Materiality Threshold."

4. Material breach of laws or IC rules and regulations on the prescribed net worth and risk-based capital requirements of the ICRE; and
  5. Material internal control weaknesses which may lead to financial reporting problems.
- 8.2 Where a thorough investigation or evaluation of facts is necessary on a discovery of an adverse matter, an initial report shall be submitted within the prescribed timeline; provided that a complete report is submitted not later than fifteen (15) calendar days from the completion of investigation or evaluation.
  - 8.3 In case there are no adverse matters to report, the Accredited External Auditor shall submit directly to the IC within fifteen (15) calendar days after the date of the auditor's report a notarized certification that there is none to report.
  - 8.4 It is however, understood that the accountability of an Accredited External Auditor is based on matters within the coverage of an audit conducted in accordance with the generally accepted auditing standards. The financial statements, together with the supplemental report as required by the IC, submitted to the IC are the primary responsibility of the ICRE's Board and Management.
  - 8.5 The Accredited External Auditor shall directly report to the IC within fifteen (15) calendar days from the pre-termination of the engagement contract or from the date of resignation/replacement as an Accredited External Auditor and stating the reason(s) thereof.
  - 8.6 All reports, as discussed above, shall be submitted, together with a notarized certification provided in **Annex "B,"** in digital/ electronic format to <https://forms.office.com/r/Xg5s4JdADn>.

## **SECTION 9: REGULATORY AND SUPERVISORY ENFORCEMENT**

- 9.1. The IC reserves the right to deploy its supervisory and regulatory tools and actions, including access to the records and working papers, to promote adherence with the requirements provided in this CL and bring about timely corrective actions.
- 9.2. The IC shall consider the nature, gravity, and persistence of issue in determining appropriate sanctions to be imposed for Accredited External Auditors. In this respect, the following shall govern the progression of sanctions that shall be imposed:

<b>Occurrence</b>	<b>Regulatory Action</b>	
	<b>Minor Offenses</b>	<b>Serious Offenses</b>
1st Offense	Directives/Instructions	Warning
2nd Offense	Warning	Conditional Approval or Suspension
3rd Offense	Conditional Approval or Suspension	Denial of application or revocation/delisting

At a minimum, an Accredited External Auditor shall receive a serious offense if he/she committed any of the following:

1. The supplemental report is not in accordance with the guidelines of the Commission;
  2. The Accredited External Auditor extended her/his services to ICREs not belonging to the same category or from categories lower than the category of the concerned Accredited External Auditor;
  3. Failure to submit any basic component of the financial statements and/or reportorial requirements as prescribed by the applicable financial reporting framework and other relevant regulations;
  4. The Auditor's Report does not substantially comply with the Philippine Standards of Auditing, Revised SRC Rule 68 and other relevant regulations;
  5. There are material disclosure deficiencies in the Notes to the Financial Statements;
  6. Accounting policies on significant accounts are not in accordance with the financial reporting framework, or there are material misstatements involving the said accounts; and
  7. Failure to submit the reportorial requirements as required in Section 8 of this CL.
- 9.3. The IC may grant a conditional approval to the application for renewal of inclusion in the IC List of Accredited External Auditors based on the progression of sanctions under Section 9.2 of this CL. The validity of such accreditation shall be for a period of one (1) covered audit year.
- 9.4. An Accredited External Auditor shall be delisted upon prior notice to him/her and after giving him the opportunity to be heard and defend himself/herself by presenting witnesses/evidence in her/his favor. Delisted Accredited External Auditor may re-apply for IC accreditation after the period prescribed by the IC.
- 9.5. The IC shall keep a record of its proceeding investigation. Said proceedings/investigation shall not be public, unless otherwise ordered by the IC for good cause shown, with the consent of the parties to such proceedings.
- 9.6. The IC shall issue directives, orders, or impose sanctions on the ICRE and/or its directors and management for the following reasons:
1. Appointment of an External Auditor who is not in the IC List of Accredited External Auditors for ICREs; or
  2. Non-compliance with the provisions of this CL.

## **SECTION 10: TRANSITORY PROVISION**

All IC-Accredited External Auditors before the issuance of this CL shall continue to have a valid IC accreditation until the expiration of their license.

**SECTION 11: EFFECTIVITY**

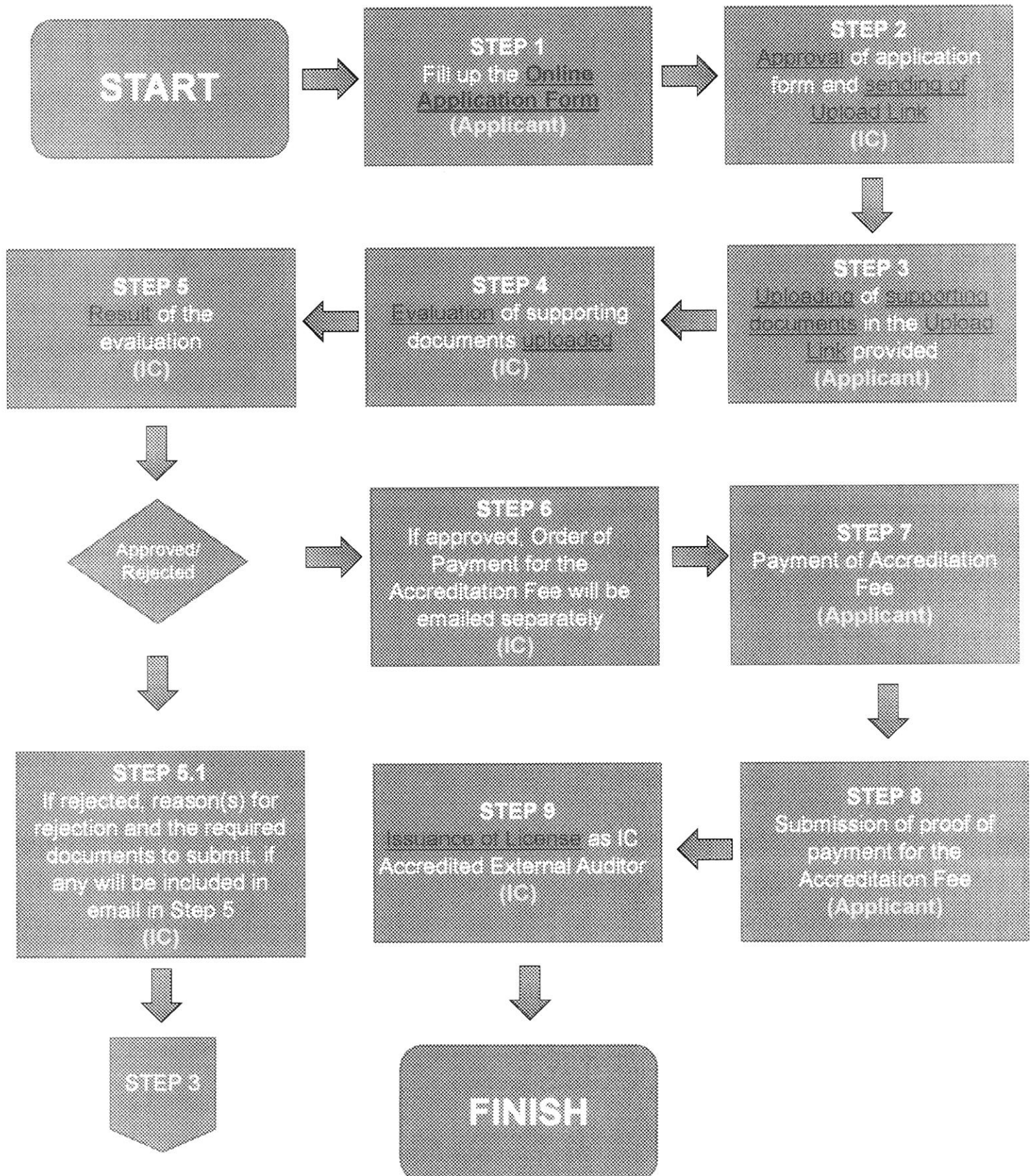
This Circular shall take effect immediately and shall supersede all previously issued CLs regarding the accreditation of External Auditors/Auditing Firms.

  
**REYNALDO A. REGALADO**  
Insurance Commissioner





# ANNEX A - IC ACCREDITATION PROCESS OF EXTERNAL AUDITOR



**Step 1**

The Applicant fill up the online application form using the Link or QR Code below:

<https://forms.office.com/r/Xq5s4JdADn>

**Step 2**

IC approved the application form. An email with Upload Link shall be received by the applicant at the email address provided.

**Step 3**

The Applicant upload the application documents to the Upload Link provided by IC. The name to be indicated should be the name of the Applicant.

**Step 4**

IC evaluates the documents uploaded by the applicant.

**Step 5**

IC emails the result of the evaluation:

- a. If approved, the applicant will be advised that he/she is Qualified as IC Accredited External Auditor under the applied category; or
- b. If denied, the reason for denial or the missing/required documents will be indicated in the email.

**Step 6**

IC will email the Order of Payment for the Accreditation Fee amounting to **₱15,000.00** to the Applicant.

**Step 7**

The Applicant will pay the Accreditation Fee to the IC Cashier in IC Head Office or through online using the Landbank Link.BizPortal.

**Step 8**

The Applicant will submit the Official Receipt if paid through the IC Cashier or the proof of payment if paid through online to the IC EA Accreditation Team using the email trail where the Order of Payment was sent.

**Step 9**

IC will issue the Accreditation Certificate to the applicant through the following:

- a. Personally, if paid through the IC Cashier; or
- b. Carrier, if through online payment.

## CERTIFICATION

To whom it may concern:

I hereby attest that I have examined all the documents, schedules and other related records relative to the audit of the financial statements of \_\_\_\_\_ (company) \_\_\_\_\_ as of and for the period ended 31 December 20\_\_\_. I declare that the report/s submitted to the Insurance Commission per IC Circular Letter No. \_\_\_\_\_, are true and accurate to the best of my knowledge.

Sincerely,

**Signature over printed name**

External Auditor